CAREER EDUCATION CORP
Form 10-K
February 27, 2012
Table of Contents

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, 2011

or

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

For the transition period from to

Commission File Number 0-23245

CAREER EDUCATION CORPORATION

(Exact name of Registrant as specified in its charter)

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

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

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

Common Stock, $0.01 par value

(Title of Class)

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

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

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

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

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

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

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

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

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

The aggregate market value of the Registrant s voting common stock held by non-affiliates of the Registrant, based upon the $21.15 per share closing sale price of the Registrant s common stock on June 30, 2011 (the last business day of the Registrant s most recently completed second quarter), was approximately $1,229,015,000. For purposes of this calculation, the Registrant s directors and executive officers holding outstanding shares of voting common stock have been assumed to be affiliates, with such affiliates holding an aggregate of 18,156,697 shares of the Registrant s voting common stock on June 30, 2011. As of January 31, 2012, the number of outstanding shares of Registrant s common stock was 67,542,629.

Portions of the Registrant s Notice of Annual Meeting and Proxy Statement for the Registrant s 2012 Annual Meeting of Stockholders are incorporated by reference into Part III of this Report.

Table of Contents

CAREER EDUCATION CORPORATION

FORM 10-K

TABLE OF CONTENTS

Table of Contents

PART I

Cautionary Note Regarding Forward-Looking Statements

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

ITEM 1. BUSINESS

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

BUSINESS OVERVIEW

The colleges, schools and universities that are part of the Career Education Corporation (CEC) family offer high-quality education to a diverse student population of approximately 100,000 students across the world in a variety of career-oriented disciplines through online, on-ground and hybrid learning program offerings. The more than 90 campuses that serve these students are located throughout the United States and in France, the United Kingdom and Monaco, and offer doctoral, master s, bachelor s and associate degrees and diploma and certificate programs.

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

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

As of January 1, 2011, we organized our business across six reporting segments which include CTU, AIU, Health Education, Culinary Arts, Art & Design and International. These segments were determined in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 280 *Segment Reporting* and were based upon how the Company analyzes performance and makes decisions. Each segment represents a group of postsecondary education providers that offer a variety of degree and non-degree academic programs. These segments are organized by key market segment to enhance brand focus and operational alignment within each segment to more effectively execute our strategic growth plan. In addition, during the fourth quarter 2011, we completed the sale of Istituto Marangoni. Accordingly, the results of operations for the three Istituto Marangoni schools are now reported within discontinued operations. All prior period results have been recast to reflect our reporting segments on a comparable basis. The reporting segments are described below.

Table of Contents

CTU includes our Colorado Technical University schools. These schools collectively offer academic programs in the career-oriented disciplines of business studies, information systems and technologies, criminal justice, computer science and engineering, and health sciences in an online, classroom or laboratory setting.

AIU includes our American InterContinental University schools. These schools collectively offer academic programs in the career-oriented disciplines of business studies, information technologies, criminal justice and design in an online, classroom or laboratory setting.

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

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

Art & Design includes IADT, Harrington College of Design, Collins College and Brooks Institute schools. These schools offer academic programs primarily in the career-oriented disciplines of fashion design, game design, graphic design, interior design, film and video production, photography and visual communications in a classroom, laboratory or online setting as well as jobs training in the field of energy conservation.

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

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

INDUSTRY BACKGROUND AND COMPETITION

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

According to the National Center for Education Statistics (NCES), there were approximately 7,154 Title IV eligible postsecondary education institutions in the United States for the academic year 2010-11, including approximately 3,244 private, proprietary schools; approximately 2,043 public, non-profit schools; and approximately 1,867 private, non-profit schools. According to the U.S. Department of Education, in the fall of 2010 approximately 29 million students were attending institutions that participate in the various financial aid programs under Title IV of the Higher Education Act.

Our primary competitors in the publicly traded, proprietary postsecondary education industry are: Apollo Group, Bridgepoint Education, Inc., Capella Education Company, Corinthian Colleges, Inc., DeVry Inc., Education Management Corporation, Grand Canyon Education, Inc., ITT Educational Services, Kaplan (a division of the Washington Post Company) and Strayer Education. We also compete with a number of privately held, proprietary and non-profit postsecondary institutions. In addition, there is growing competition from online programs across postsecondary education institutions, including proprietary publicly traded and privately held institutions, as well as non-profit institutions.

Table of Contents

Our domestic postsecondary institutions are subject to significant regulations. The Higher Education Act, as reauthorized, and the related regulations govern all higher education institutions participating in Title IV financial aid programs, and provide for a regulatory triad by mandating specific regulatory responsibilities for each of the following:

- The accrediting agencies recognized by the U.S. Department of Education (ED or the Department);
- The federal government through ED; and
- State higher education regulatory bodies.

Recently, extensive and more complex ED regulations governing our institutions as well as others in the domestic postsecondary education industry have been enacted. These new regulations, as well as an increased focus by the U.S. Congress on the role that proprietary educational institutions play in higher education, may cause increased competition across the industry as well as contribute to changes in business operating strategies.

BUSINESS AND OPERATING STRATEGY

We believe that to compete successfully in today s demanding economy, individuals benefit significantly from a solid education that provides them with the foundation of knowledge and skills they can use in the workplace and to build meaningful careers. Our goal is to be an effective, efficient and trustworthy adult educator, leading in quality instruction and the application of technology to learning.

Our strategic plan is aimed at addressing both the near-term demands within the environment in which we operate while ensuring that we continue to build the capabilities necessary to deliver sustainable long-term growth. We will focus our efforts on three imperatives:

Resolve Current Challenges

As we enter 2012, our ability to implement growth initiatives will be limited by constraints currently imposed by certain of our accreditors, and by prospective changes necessary to comply with the Department of Education s 90-10 Rule regulations, which are discussed later in this Business section. As a result, a core part of our strategy is to ensure all necessary actions are being taken to address these constraints.

Simplify the Organization

We operate in a competitive and highly regulated industry. Our ability to effectively compete over the long-term will require us to become more efficient and consistent in the delivery of educational content across our institutions. We have historically capitalized on shared services efforts to increase efficiencies and effectiveness in school support functions. As we move forward, we need to seek to improve the alignment of our campus operations and leverage best practices across all of our institutions.

Differentiate for Advantage

Through investment in leading edge technology, pedagogical resources and branding initiatives, we will seek to differentiate our institutions. Providing enhanced learning outcomes through innovative educational experiences will be central to this initiative. Strongly supporting a more limited number of brands is also a core initiative, enabling us to further differentiate our institutions offerings from those of our competitors. We believe that our award winning information technology architecture provides a key differentiator from other postsecondary institutions. Through our proprietary virtual campus, we have the ability to provide unique online and blended learning environments.

Table of Contents

These three imperatives are rooted in the overarching mission of putting our students first.

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

School and Campus Locations	Website
AMERICAN INTERCONTINENTAL UNIVERSITY (AIU):	www.aiuniv.edu
AIU Online, *Schaumburg, IL*	www.aiuonline.edu
AIU Atlanta, *Atlanta, GA*	
AIU Houston, *Houston, TX*	
AIU London, *London, England*	
AIU South Florida, *Weston, FL*	
ART & DESIGN:	
Brooks Institute, *Santa Barbara and Ventura, CA*(1)	www.brooks.edu
Collins College, *Phoenix, AZ*	www.collinscollege.edu
Harrington College of Design, *Chicago, IL*	www.interiordesign.edu
International Academy of Design & Technology (IADT)	www.iadt.edu
IADT-Chicago, *Chicago, IL and Everblue Training Institute, Huntersville, NC*(1)	www.everblue.edu
IADT-Detroit, *Troy, MI*	
IADT-Las Vegas, *Henderson, NV*	
IADT-Nashville, *Nashville, TN*	
IADT-Online, *Tampa, FL*	
IADT-Orlando, *Orlando, FL*	
IADT-Sacramento, *Sacramento, CA*	
IADT-San Antonio, *San Antonio, TX*	
IADT-Schaumburg, *Schaumburg, IL*	
IADT-Seattle, *Seattle, WA*	
IADT-Tampa, *Tampa, FL*	
COLORADO TECHNICAL UNIVERSITY (CTU):	www.coloradotech.edu
CTU Colorado Springs, *Colorado Springs and Pueblo, CO*(1)	
CTU Denver, *Denver and Westminster, CO*(1)	
CTU Kansas City, *North Kansas City, MO*	
CTU Online, *Colorado Springs, CO*	
CTU Sioux Falls, *Sioux Falls, SD*	
CULINARY ARTS:	
California Culinary Academy, *San Francisco, CA*	www.chefs.edu
Le Cordon Bleu College (or Institute) of Culinary Arts (LCB)	www.chefs.edu
LCB-Atlanta, *Tucker, GA*	
LCB-Austin, *Austin, TX*	
LCB-Boston, *Cambridge, MA*	
LCB-Chicago, *Chicago, IL*	

Table of Contents

School and Campus Locations	Website
CULINARY ARTS (Cont):	
LCB-Dallas, *Dallas, TX*	
LCB-Las Vegas, *Las Vegas, NV*	
LCB-Los Angeles, *Pasadena and Hollywood, CA*(1)	
LCB-Miami, *Miramar, FL*	
LCB-Minneapolis/St. Paul, *Mendota Heights, MN*	
LCB Orlando, *Orlando, FL*	
LCB Pittsburgh, *Pittsburgh, PA*	
LCB-Portland, *Portland, OR*	
LCB-Sacramento, *Sacramento, CA*	
LCB-Scottsdale (includes Online), *Scottsdale, AZ*	
LCB-Seattle, *Seattle, WA*	
LCB-St. Louis, *St. Peters, MO*	
HEALTH EDUCATION:	
Briarcliffe College	www.briarcliffe.edu
Briarcliffe College, *Bethpage (includes Online) and Queens, NY*(1)	
Briarcliffe College, *Patchogue, NY*	
Brown College, *Mendota Heights and Brooklyn Center, MN*	www.browncollege.edu
Missouri College, *Brentwood, MO*	www.missouricollege.edu
Sanford-Brown College (SBC)	www.sanford-brown.edu
SBC-Atlanta, *Atlanta, GA*	
SBC-Boston, *Boston, MA*	
SBC-Cleveland, *Middleburg Heights, OH*	
SBC-Collinsville, *Collinsville, IL*	
SBC-Columbus, *Columbus, OH*	
SBC-Dallas, *Dallas, TX*	
SBC-Dearborn, *Dearborn, MI*	
SBC-Farmington, *Farmington, CT*	
SBC-Fenton, *Fenton, MO*	
SBC-Grand Rapids, *Grand Rapids, MI*	
SBC-Hazelwood, *Hazelwood, MO*	
SBC-Hillside, *Hillside, IL*	
SBC-Houston, *Houston, TX*	
SBC-Houston North Loop, *Houston, TX*	
SBC-Indianapolis, *Indianapolis, IN*	
SBC-Milwaukee, *West Allis, WI*	
SBC-Phoenix, *Phoenix, AZ*	
SBC-Portland, *Portland, OR*	
SBC-San Antonio, *San Antonio, TX*	
SBC-Skokie, *Skokie, IL*	
SBC-St. Peters, *St. Peters, MO*	
SBC-Tinley Park, *Tinley Park, IL*	
SBC-Tysons Corner, *McLean, VA*	

Table of Contents

School and Campus Locations	Website
HEALTH EDUCATION (Cont):	
Sanford-Brown Institute (SBI)	www.sanford-brown.edu
SBI-Austin, *Austin, TX*	
SBI-Cranston, *Cranston, RI*	
SBI-Ft. Lauderdale, *Ft. Lauderdale, FL*	
SBI-Garden City, *Garden City, NY*	
SBI-Iselin, *Iselin, NJ*	
SBI-Jacksonville, *Jacksonville, FL*	
SBI-Landover, *Landover, MD*	
SBI-New York, *New York, NY*	
SBI-Orlando, *Orlando, FL*	
SBI-Pittsburgh, *Pittsburgh, PA*	
SBI-Tampa, *Tampa, FL*	
SBI-Trevose, *Trevose, PA*	
SBI-White Plains, *White Plains, NY*	
SBI-Wilkins Township, *Pittsburgh, PA*	
SBI Campus an affiliate of Sanford-Brown	www.sanford-brown.edu
Melville, NY	
INTERNATIONAL:	
INSEEC Group	www.inseec-france.com
CEFIRE, *Paris, France*	
ECE, *Bordeaux and Lyon, France*	
INSEEC, *Bordeaux and Paris, France*	
MBA Institute, *Paris, France*	
Sup de Pub, *Paris, Lyon and Bordeaux, France*	
Sup Sante, *Paris and Lyon, France*	
International University of Monaco,	www.monaco.edu
Monte-Carlo, *Principality of Monaco*	

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

Student Recruitment and Admissions

Our schools seek highly motivated, career-oriented students with both the desire and ability to complete their academic programs of choice. To promote interest among potential students, each of our schools engages in a wide variety of marketing activities. Each of our U.S. campuses has an admissions office whose staff is responsible for interacting with individuals interested in enrolling at the campuses. Admissions representatives serve as prospective students primary contacts, providing information to help them make informed enrollment decisions and assisting them with the completion of the enrollment process. As of December 31, 2011, our domestic schools employed 2,058 admissions representatives serving both current and potential students.

Table of Contents

We seek to increase enrollment at each of our schools through marketing programs designed to maximize each campus   opportunity to serve a broad section of the potential student population. The geographic scope of the marketing programs as well as the media deployed varies by school and location. The following table represents our estimated percentage of domestic new student starts generated by student interest from various marketing sources during the years ended December 31, 2011, 2010 and 2009:

	Domestic New Student Starts by Source Year Ended December 31,		
	2011	2010	2009
Internet	71%	71%	70%
Referrals	16%	16%	15%
Television and print	8%	9%	10%
Other	5%	4%	5%

The admissions and entrance processes of each of our schools are intended to identify students who are equipped to meet the requirements of their chosen program of study. We believe that a success-oriented student body ultimately results in higher student retention and post-graduation employment rates, increased student and employer satisfaction, and lower default rates on government loans utilized by the student. 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. Many of our programs may also require applicants to meet other admissions requirements, such as obtaining certain minimum scores on assessment examinations.

Student Academics

We believe learning outcomes and career readiness are attained by our students as a result of the Company providing a quality learning experience. Those learning experiences are characterized by career-oriented curriculum, engaging instructional delivery, qualified faculty and accessible student support services. As a result, more than 550,000 students have graduated from CEC schools as of December 31, 2011.

Curriculum

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

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

Instructional Delivery

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

Table of Contents

Construction of a virtual classroom that engages online students with their instructor, their peers and the content is critical to the achievement of student learning outcomes. CEC s online instructional delivery is accomplished utilizing an innovative, student-focused learning management system. While online content delivery is very common today, CEC s course content delivery system, M.U.S.E. (My Unique Student Experience), has several features that make it distinctive in the education marketplace. Designed around the students, M.U.S.E. can be a rich, engaging student experience. M.U.S.E. is distinctive and represents an innovative online method of delivering content that includes the following capabilities:

- presents various methods to support multiple learning styles, so students can choose their own learning method and engage in content that best meets their learning styles;

- allows students to apply a filter to course content for a specific unit, so students can determine their choice of learning objects based on their preferred learning style;

- blends learning styles with topical-based content in a nonlinear mode that allows students to choose the order and depth of topics to study;

- integrates several key web experiences and closely mimics the student daily experience, which allows for intuitive student use and certain features such as learning objects that allow the student to stay focused on the larger task; and

- allows the student to reference the content more efficiently with increased mobility within the content delivery system and the ability to search topics to assist with completion of assessment activities.

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

- rich descriptive text with hyperlinks that users can simply click on to reference material and information;

- interactive 3-D anatomy where images are specific to the procedure, helping to give students a more detailed look and familiarity with the human anatomy;

- video descriptions of each procedure narrated by a medical expert; and

- virtual reality simulations, where students utilize learning and testing modes.

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

Sanford-Brown partners with Pegasus Lectures Inc. as a means of reinforcing student engagement with the content. Pegasus Lectures provides continuing medical education for physicians, practicing sonographers and beginning students of ultrasound sonography for the purpose of exam preparation. As a result of this partnership, Sanford-Brown students have access to Pegasus exam preparatory review materials that are easily integrated into the curriculum.

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

- hands-on, relevant health information management software experience;

Table of Contents

- opportunities to work with patient records for experience in coding, abstracting and chart completion;
- options and convenience that accommodate diversity in student learning styles;
- experience that facilitates a smooth transition from classroom theory to workplace practice; and
- skills training with a recognized software product that increases graduate marketability.

Faculty

CEC employs approximately 6,400 appropriately credentialed, geographically disbursed, full-time and adjunct faculty who are responsible for facilitating learning in our lecture halls, kitchens, labs, studios and virtual classrooms. Our faculty are hired, assigned, developed and evaluated in compliance with state, institutional accreditation and programmatic accreditation standards. Generally, all schools require the instructor to have a degree at least one level higher than the level of course being taught plus teaching and/or industry experience. General Education faculty members must possess a master s degree. The average tenure of a CEC faculty member is 3.3 years.

Faculty Competencies

With the input of faculty and academic leadership across each of our strategic business units, we have developed a set of ten instructor competencies. These competencies provide the basis for faculty recruitment, hiring, orientation, evaluation and development. The competencies apply to all instructors, regardless of content area, instructional platform (ground or online) and employment status (full-time, part-time, adjunct). Faculty hired by any CEC institution are expected to demonstrate proficiency in each of the following competencies:

- communication;
- assessment of student learning;
- instructional methodology (pedagogy);
- subject matter expertise;
- utilization of technology to enhance teaching and learning;
- acknowledgement and accommodation of diversity in learners;
- student engagement;
- promotion of active student learning;
- compliance with policy; and

demonstration of scholarship.

Faculty employed by CEC institutions demonstrate scholarship in a variety of ways. They may elect to publish a paper or to make a presentation at a conference. Equally important, they may exhibit a painting or a photograph in a gallery, develop a video game or enter a cooking competition. Faculty are encouraged to demonstrate scholarship in a manner that models reflection upon and refinement of their knowledge and expertise within the institution and the larger community.

As a result of self-assessment, student evaluations and classroom observations, faculty identify those competencies where they have an opportunity to improve. Instructors engage in faculty development activities to address these growth opportunities.

Faculty Development

Instructors are required to engage in faculty development activities each year as part of the continuous improvement process. CEC has contracted with MaxKnowledge to provide online and ground instructor access to

Table of Contents

online faculty modules located within the Center for Excellence in Education (CEE). CEE provides faculty with interactive content in areas such as teaching methodology, instructional practice, classroom management, outcomes assessment and student retention in an asynchronous format that provides the opportunity for interaction with a facilitator and other instructors. Each module requires approximately four hours of engagement by the faculty member. Instructors may enroll in up to three online courses per subscription year. In 2011, a total of 5,760 CEE courses were completed by CEC faculty.

The Educator of the Year program celebrated its eleventh year in 2011. The Educator of the Year program is designed to recognize teaching as the essence of CEC s mission and celebrates the impact that CEC faculty have upon their students through efforts in four specific categories:

- instruction;
- student support;
- academic leadership; and
- community service or partnership.

A rigorous internal and external review process culminates in the identification of Educator of the Year finalists and one Educator of the Year is nationally recognized in each of the four categories.

CEC believes that by developing and recognizing our faculty, we are enriching not only the faculty members skills, but also the educational experience of our students.

Additionally, each institution provides in-services as a means to support and improve instructional practice. For example, in 2012, instructors who have formerly been acknowledged as Educator of the Year will serve as speakers in a series of web presentations accessible by all CEC faculty.

Student Support Services

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

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

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

Commencing in 2011, the IADT campuses, along with Collins College, instituted a new policy that required those students without a minimum of 12 credit hours, or a minimum ACT or SAT score, to take an entrance assessment. In all programs, a minimum score on the entrance assessment was required for admission for those students who did not meet the credit hour, ACT or SAT thresholds. Effective January 2012, students that wish to enroll in a fashion design program must submit a portfolio or collection of work to be reviewed for determination of eligibility for acceptance for enrollment. Additionally, the minimum entrance assessment score threshold was raised for some programs.

At the same time that these entrance requirements were instituted, the IADT ground campuses, as well as Collins College and AIU, implemented the use of MyFoundationsLab to assist students needing academic support. Learning resource center operations were aligned to ensure that students had access to campus-based resources as well as online resources. Additionally, the academic advising model was restructured to provide all students with access to full-time academic advisors rather than rotating faculty advisors.

Table of Contents

In 2011, AIU and CTU implemented the Student Orientation and Academic Readiness (SOAR) program, which identifies students who may not be prepared for the rigor of college studies. First-time college students at the online campuses of AIU and CTU are required to take a five-week, college level course designed to develop the knowledge and skills required for successful engagement in postsecondary studies. This course also identifies students who may need individual assistance or academic development. Students unprepared for college-level work are dismissed without a grade, are not counted in the institution s enrollment metrics and incur no tuition for the course.

In 2012, in accordance with CEC s alignment with the Standards of Responsible Conduct created by the Foundation for Educational Success, all CEC institutions will offer new undergraduate students initially enrolling in a program of study, a trial or refund period, an orientation, or a combination of both so that the students are ready to undertake their programs, described as a readiness opportunity, that will be 21 days in length. If at any time during or at the conclusion of the readiness opportunity, the student withdraws, or if where required by the adherent institution the student fails to demonstrate he or she is prepared for college-level studies or to confirm his or her intent to continue enrollment, then the student will do so without incurring any tuition related expenses or debt. Students shall not incur program charges or receive Title IV assistance until they confirm that they wish to become an officially enrolled student. As part of its planning process, CEC is currently evaluating whether certain students with prior credit at other institutions will be eligible for the readiness opportunity due to their prior higher education experience.

Ground and online students have access to the Cybrary, a collection of electronic resources that has been developed to support the curriculum offered by each of the CEC institutions. The Cybrary includes, but is not limited to:

Academic Search Premier scholarly collection of 4,600 titles;

Art & Architecture Complete research collection for study of art and architecture with 330 periodicals, 215 books and 64,000 images;

Art Museum Image Gallery collection of 165,000 art images including fine and decorative arts, paintings, sculptures, photographs, textiles, costumes, jewelry and furniture;

Berg Fashion Library integrated text and image content with 5,000 images and 160 e-books;

Business Source Premier coverage of all business disciplines including marketing, management, accounting, finance and economics in over 4,000 journals;

CINAHLL Plus comprehensive nursing and allied health research database with more than 750 journals and 240 books;

Credo Reference world s largest online reference service with 2,000 encyclopedias, dictionaries and reference books;

ERIC Educational Resource Information Center provides access to 32,000 resources;

Hospitality & Tourism Complete collection of 828,000 records related to hospitality and tourism;

National Newspapers Online access to 10 national newspapers including *The New York Times, Wall Street Journal* and *Chicago Tribune*;

Nursing Reference Center provides clinical resources to nurses and health care professionals in 5,000 full-text documents;

Safari Books Online provision of 7,000 e-books in business and technology; and

Scientific & Medical Art Imagebase collection of 18,500 high quality illustrations depicting anatomy, physiology, surgery, diseases, etc.

Table of Contents

All students access the Cybrary through their student portal. In 2011, we acquired a new discovery service platform that allows all resources both electronic and local print resources to be searchable through one interface. As a result, students may access resources more effectively and efficiently; additionally, more accurate resource utilization data can be generated and monitored.

Online students have access to online reference librarians 80 hours each week. Students can access support from the online librarians through instant messaging, telephone or email. In 2011, we piloted the provision of online reference support to students attending Le Cordon Bleu ground-based campuses. A limited number of Sanford-Brown campuses began to pilot online reference support at the end of 2011. In 2011, the online reference librarians conducted 25,300 reference interactions with CEC students.

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

As of January 31, 2012, we employed approximately 318 individuals in the career services departments of our campuses. As part of our overriding mission of putting students first, during 2012, we plan to increase the number of career services personnel dedicated to helping our graduates obtain employment. In addition to our career services personnel, we employ many externship coordinators who help students obtain externships that prepare them to compete in the employment market.

Student Retention

CEC continually emphasizes the importance of student retention at each of our schools. As is the case at any postsecondary educational institution, a portion of our students fail to complete their academic programs for a variety of academic, financial or personal reasons. In addition to the personal gain for students, our experience indicates that increases in our revenue and profitability can be achieved through improvements in student retention rates. Furthermore, the costs to our schools of retaining current students are generally much less than the expense of the marketing efforts associated with attracting new students. Our schools consolidated retention rates for the years ended December 31, 2011, 2010 and 2009 were approximately 63.0%, 66.6% and 69.6%, respectively. These rates were determined in accordance with the standards set forth by the Accrediting Council for Independent Colleges and Schools (ACICS) to provide a common formula for all our schools regardless of their accreditor.

In 2011, CEC elected to participate in an industry study of retention, undertaken by the Parthenon Group, in an attempt to determine retention performance for different sub-groups of CEC students, compared with comparable institutions, and to identify actions taken by schools that resulted in improved student retention. CEC joined a number of other proprietary school groups in this study that encompassed the review of two million student records and 100 staff interviews. For purposes of this study, success was defined as either graduated or still enrolled in classes within a 365 day window; all other outcomes were considered to be a drop. With the exception of certificate and diploma programs, in general, students enrolled in programs awarding a higher credential demonstrated better persistence when compared with students enrolled in programs awarding a less advanced credential. Ground students in the study, across the industry, demonstrated better persistence than online students. As a result of the data provided by this study, each of our institutions is revising current strategies to support student persistence.

Seasonality

Our domestic quarterly revenues and income do not fluctuate significantly from quarter to quarter. The pattern of student enrollments can affect quarterly revenues and income, although historically we have not

Table of Contents

experienced significant fluctuations. Certain programs offered by some of our schools include summer breaks; most notably our campuses within our International segment. To the extent our International segment increases its revenues or comprises a greater percent of the total company, the seasonality impact may increase. Operating costs for our schools generally do not fluctuate significantly on a quarterly basis. Revenues, operating income and net income by quarter for each of the past two fiscal years are included in Note 19 Quarterly Financial Summary of the notes to our consolidated financial statements.

Employees

As of December 31, 2011, we had a total of 14,602 employees, including 1,500 students employed on a part-time basis at certain of our schools, as follows:

	Full-time Non-student Employees	Part-time Non-student Employees	Part-time Student Employees	Full-time Faculty	Part-time Faculty	Total
Corporate	1,337	36	7		6	1,386
Continuing operations	5,156	159	1,493	1,145	5,263	13,216
Total	6,493	195	1,500	1,145	5,269	14,602

Student Population

Our student population for our continuing operations as of December 31, 2011 and 2010 was 99,000 students and 114,800 students, respectively. Included in total student population for our continuing operations as of December 31, 2011 and 2010 were 37,000 students and 44,500 students, respectively, enrolled in our fully-online academic programs. Related student population demographic information as of December 31, 2011 and 2010 was as follows:

Student Population by Age Group

	As a Percentage of Total Student Population as of December 31,	
	2011	2010
Under 21	15%	16%
21 to 30	42%	42%
Over 30	43%	42%

Student Population by Core Curricula

	As a Percentage of Total Student Population as of December 31,	
	2011	2010
Business Studies	43%	50%
Health Education	27%	22%
Visual Communications and Design Technologies	12%	13%
Culinary Arts	13%	11%
Information Technology	5%	4%

Table of Contents

Student Population by Degree Granting Program

	As a Percentage of Total Student Population as of December 31, 2011	2010
Doctoral, Master s, Bachelor s Degree	48%	37%
Associate Degree	26%	42%
Certificate	26%	21%

ACCREDITATION

In the United States, accreditation is a process through which an institution submits itself to qualitative review by an organization of peer institutions. Accrediting agencies primarily examine the academic quality of the instructional programs of an institution, and a grant of accreditation is generally viewed as 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 the resources to perform its educational mission.

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

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

ACCREDITATION TABLE

School, Main Campus Location (Additional locations as defined by accreditors are in parentheses)	Accreditor[(1)]	Year of Accreditation Expiration[(2)]
American InterContinental University		
Schaumburg, IL (Online) (*Atlanta, GA; Weston, FL; Houston, TX; London, England*)	HLC	2014
Briarcliffe College, Inc.		
Bethpage, NY (*Patchogue, NY*)	MSA	2011[(3)]
Brooks Institute		
Santa Barbara, CA	ACICS	2016
Brown College		
Mendota Heights, MN (Brooklyn Center, MN)[(5)]	ACCSC	2012[(4)]
California Culinary Academy		
San Francisco, CA	ACCSC/ACICS	2015
Colorado Technical University		
Colorado Springs, CO (*Denver, CO; North Kansas City, MO; Sioux Falls, SD; Online*)	HLC	2012
Harrington College of Design		
Chicago, IL	HLC	2015

Table of Contents

School, Main Campus Location (Additional locations as defined by accreditors are in parentheses)	Accreditor[1]	Year of Accreditation Expiration[2]
International Academy of Design & Technology		
Chicago, IL (*Troy, MI; Schaumburg, IL; Nashville, TN; Collins College, Phoenix, AZ*)	ACICS	2012
Tampa, FL (*Orlando, FL; Henderson, NV; Sacramento, CA; San Antonio, TX; Seattle, WA; Online; Le Cordon Bleu College of Culinary Arts, Orlando, FL; Sanford-Brown College, Portland, OR*)	ACICS	2014
Le Cordon Bleu College of Culinary Arts		
Austin, TX *(Dallas, TX; Sacramento, CA; Seattle, WA; and St. Peters, MO; Sanford-Brown College, Collinsville, IL and Hazelwood, MO)*	ACICS	2017
Pasadena, CA *(Hollywood, CA; Sanford-Brown College, Dearborn, MI; Grand Rapids, MI; Hillside, IL; Indianapolis, IN; Phoenix, AZ; Tinley Park, IL, and Skokie, IL; Sanford-Brown Institute, Orlando, FL)*	ACICS	2012
Portland, OR *(Tucker, GA; Mendota Heights, MN)*	ACICS	2014
Scottsdale, AZ (includes Online) *(Las Vegas, NV)*	ACCSC/ACICS	2015
Le Cordon Bleu College of Culinary Arts in Chicago		
Chicago, IL	HLC	2018
Le Cordon Bleu Institute of Culinary Arts		
Pittsburgh, PA *(Le Cordon Bleu College of Culinary Arts, Inc., a private two year college (Cambridge, MA); Le Cordon Bleu College of Culinary Arts, Miramar, FL)*[7]	ACCSC	2015[6]
Missouri College		
Brentwood, MO	ACICS	2014
Sanford-Brown College		
Atlanta, GA *(Columbus, OH; Houston, TX; Houston/North Loop, TX; and Middleburg Heights, OH; Sanford-Brown Institute, Austin, TX; Ft. Lauderdale, FL; Landover, MD; New York, NY; and Trevose, PA)*	ACICS	2014
Boston, MA *(Sanford-Brown College, Inc., a private two-year college)*	ACICS	2014
Dallas, TX *(San Antonio, TX; Sanford-Brown Institute, Garden City, NY)*	ACICS	2013
Farmington, CT	ACICS	2011[3]
Fenton, MO (*St. Peters, MO)*	ACICS	2017
McLean, VA	ACICS	2015
Sanford-Brown Institute		
Jacksonville, FL *(Iselin, NJ; Tampa, FL; Sanford-Brown College, West Allis, WI)*	ACICS	2011[3]
Pittsburgh, PA *(Wilkins Township, PA)*[5]	ACCSC	2014
White Plains, NY	ACICS	2013
SBI Campus an Affiliate of Sanford-Brown		
Melville, NY *(Sanford-Brown Institute, Cranston, RI)*	ACICS	2014

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

(2) Status as of February 13, 2012. Institutions seek renewal of accreditation during the year noted.

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

(4) Accreditation for the Brooklyn Center branch campus expires in 2015.

(5) These campuses are also accredited by ACICS as additional locations of IADT Tampa as part of a campus consolidation project which is underway.

Table of Contents

(6) Accreditation for the Miramar branch campus expired in 2011 and has been extended while the institution completes the reaccreditation process.

(7) The Cambridge and Miramar campuses are also accredited by ACICS as additional locations of IADT Tampa as part of a campus consolidation project which is underway.

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

PROGRAMMATIC ACCREDITATION TABLE

Accrediting Body	Campus	Program Accredited
Accreditation Council for Business Schools and Programs	American InterContinental University, Atlanta, Schaumburg (Online), Houston, London and Weston	Business programs
Accreditation Council for Occupational Therapy Education	Sanford-Brown College, Hazelwood	Occupational therapy assistant
Accreditation Board for Engineering and Technology	Colorado Technical University, Colorado Springs	Engineering
Accrediting Bureau of Health Education Schools	Brown College, Brooklyn Center and Mendota Heights; Colorado Technical University, North Kansas City; Missouri College; Sanford-Brown College, Atlanta, Boston, Collinsville, Dallas, Dearborn, Farmington, Fenton, Grand Rapids, Hazelwood, Hillside, Houston, Houston North, Indianapolis, McLean, Middleburg Heights, Phoenix, San Antonio, Skokie, St. Peters, Tinley Park, and West Allis; Sanford-Brown Institute, Cranston, Ft. Lauderdale, Garden City, Iselin, Jacksonville, Landover, New York, Orlando, Pittsburgh, Tampa, Trevose, White Plains and Wilkins Township; SBI Campus an affiliate of Sanford-Brown, Melville	Medical assistant
Accrediting Bureau of Health Education Schools	Sanford-Brown College, Dallas, Houston, Houston North, and St. Peters; Sanford-Brown Institute, Ft. Lauderdale, Iselin, and Jacksonville	Surgical technology

Table of Contents

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

Table of Contents

Accrediting Body	Campus	Program Accredited
CAAHEP Committee on Accreditation for Polysomnographic Technologist Education	Sanford-Brown College, Fenton	Polysomnographic technology
CAAHEP Joint Review Committee on Education in Cardiovascular Technology	Sanford-Brown College, Dallas and Middleburg Heights; Sanford-Brown Institute, Ft. Lauderdale	Cardiovascular Sonography
CAAHEP-Joint Review Committee on Education in Diagnostic Medical Sonography	Sanford-Brown College, Atlanta, Dallas, Fenton, Houston and Middleburg Heights; Sanford-Brown Institute, Ft. Lauderdale, Garden City, Iselin, Landover, New York, Pittsburgh and White Plains	Diagnostic medical sonography
Committee on Accreditation for Respiratory Care	Sanford-Brown College, Fenton; Sanford-Brown Institute, Wilkins Township	Respiratory therapy
Council for Interior Design Accreditation	American InterContinental University, Atlanta; Harrington College of Design; IADT Chicago, Tampa and Troy	Interior design
Joint Review Commission on Education in Radiologic Technology	Colorado Technical University, North Kansas City; Sanford-Brown College, Fenton, Houston North, Middleburg Heights, and West Allis; Sanford-Brown Institute, Pittsburgh	Radiologic technology
National Accrediting Agency for Clinical Laboratory Sciences	Sanford-Brown College, Houston	Medical laboratory technician
National Court Reporters Association	Colorado Technical University, Sioux Falls	Court reporting

On November 14, 2011, the Company received a letter from ACICS directing the Company, on behalf of certain of its ACICS-accredited institutions in the Health Education and Art & Design segments, to show-cause at ACICS December 2011 meeting. The show-cause directive relates to the adequacy of the administrative practices and controls relative to the Company s reporting of placement rates to ACICS. CEC representatives appeared before ACICS on December 7, 2011 and reviewed, among other things, the procedures the Company has implemented to ensure the accurate determination and reporting of placement rates.

In the second half of 2011, the Company adopted a number of additional policies and procedures surrounding its schools determination and reporting of placement rates. These additional measures include changes in career services personnel, including the creation of a new Director of Career Services Compliance position. The Company also has adopted a new career services policy manual that contains additional direction and clarification surrounding placement determination criteria. The manual also includes new procedures regarding the verification and documentation of graduate placements. Additionally, in the fourth quarter of 2011, we began to utilize the services of an independent third party to provide placement re-verification services to further audit placement activity. These measures are designed to provide greater consistency and accountability with respect to the placement determination practices across all of the Company s domestic campuses.

Table of Contents

In addition to the foregoing, the Company is increasing the number of career services personnel dedicated to helping student graduates obtain employment. The Company has also begun to limit enrollments or teach-out certain programs for which graduate employment opportunities may not be as readily available as other programs.

On December 13, 2011, ACICS advised the Company that it decided to defer further action on its show-cause directive until its next regularly scheduled meeting in April 2012. The directive applied to all CEC schools accredited by ACICS, including the ACICS-accredited institutions in the Health Education, Art & Design and Culinary Arts segments. ACICS acknowledged the efforts CEC had implemented to address concerns related to the verification of placement data, but seeks confirmation that the efforts will continue for a sustained period of time and be implemented at all campuses accredited by the agency. ACICS has requested that the Company provide certain additional information to ACICS in advance of the April 2012 meeting. While the show-cause directive is in effect, ACICS will not accept any applications for new programs or the initiation of additional locations or campus additions. The Company is assembling the requested information and representatives of the Company plan to appear before ACICS at the April 2012 meeting.

According to ACICS *Accreditation Criteria*, a show-cause directive is not a negative or conditioning action. Rather, it is issued to an institution for it to come forward and demonstrate that a negative or conditioning action should not be taken. The Company cannot predict the outcome or duration of this matter with certainty. Since accreditation is required for an institution to remain eligible to participate in the federal student financial aid programs, the failure by the Company to satisfactorily resolve the show-cause directive could have a material adverse effect on the Company s business, reputation, financial position, cash flows and results of operations.

In addition to publicly reporting its finding of certain placement determination practices at selected Health Education and Art & Design segment schools, the Company has informed state regulators and other programmatic and institutional accreditors of the ACICS show-cause directive and expects to continue to receive requests for information and to provide updates regarding the placement determination practices and the status of the ACICS show-cause directive. To date, the Company and its institutions have responded to information requests from ED, Accrediting Commission of Career Schools and Colleges (ACCSC), Higher Learning Commission of the North Central Association of Colleges and Schools (HLC), Accrediting Bureau of Health Education Schools (ABHES), State of Pennsylvania Department Education Division of Higher and Career Education (PADOE), Arizona State Board for Private Postsecondary Education (BPPE) and Florida Commission for Independent Education. We cannot predict the outcome of these matters, and any unfavorable outcomes could have a material adverse effect on our business, results of operations, cash flows and financial position.

State Authorization and Accreditation Agencies

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

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

State licensing agencies are responsible for the oversight of educational institutions, and continued approval by such agencies is necessary for an institution to operate and grant degrees, diplomas, or certificates to its

Table of Contents

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 are located, and in certain other states in which our schools operate or recruit students. Currently, each of our U.S. campuses is authorized by the states in which it is located.

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

On October 29, 2010, ED issued final regulations pertaining to certain aspects of the administration of the Title IV Programs, including, but not limited to, state authorization. The October 29, 2010 regulations require, among other things, that an institution offering distance learning or online programs secure the approval of those states which require such approval and provide evidence of such approval to ED upon request. On July 12, 2011, the U.S. District Court for the District of Columbia struck down those portions of the October 29, 2010 regulations requiring proof of state approval for online education programs. That holding has been appealed by ED. If the lower court ruling is upheld, ED may elect to re-introduce this rule.

If implemented, these regulations may require our schools offering distance education to obtain state approvals or registrations from additional states which currently or in the future may elect to regulate institutions that enroll their residents in online programs and courses. Our schools offering distance learning have submitted additional applications for licensures or exemptions for their distance learning programs and have received approval from a majority of those states. Some of our schools have elected to discontinue enrollment of students from certain states or in certain programs in lieu of obtaining licensure. There are many other institutions that have submitted similar applications which has impacted turnaround times with some agencies.

State regulatory requirements for online education are inconsistent between states, change frequently and, in some instances, are not clear and the interpretation of such regulations is generally left to the discretion of state employees or agents. In response to the proposed ED rules, states that do not presently regulate delivery of online courses and programs have enacted legislation or issued regulations that specifically address online educational programs, such as those offered by our schools, and may enact or issue regulations impacting the availability of exemptions from licensure in certain states, or otherwise affect our schools operations.

If one of our schools offering distance learning does not have the appropriate state approvals for its online programs, it may not be able to continue to offer distance education to students in those states until it obtains the additional approvals or exemptions, or may be required to return Title IV Program funds for students who were enrolled during a period the school was found to lack a required state approval, either of which could have a material impact on our business, financial condition, results of operations, cash flows and the value of our common stock.

International Regulations

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

Table of Contents

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

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

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

Currently, two of our INSEEC schools have been granted the highest level of European approval, Master Grade, four schools have been granted Level I approval, four schools have been granted Level II approval, and seven schools have been granted Level III approval. These approvals are subject to regular renewal from the French Ministry of Education. The renewal for diploma stamp has been obtained for a term of five years for two schools as of September 1, 2011, and the renewal for Master Grade has been obtained for a term of three years for two schools as of September 1, 2011.

Principality of Monaco. The International University of Monaco delivers a full time Masters of Business Administration (MBA) and an Executive MBA. IUM obtained accreditation from the Association of MBAs in 2004 and the renewal of this accreditation for five years was received in November 2011. The degrees Masters and Bachelor of Science in Business Administration are recognized by the Ministry of Education in Monaco.

United Kingdom (U.K.). AIU London has been granted proper authority by the applicable U.S. and U.K. entities to grant academic credentials. AIU London is authorized to grant U.S. academic degrees by the Nonpublic Postsecondary Education Commission of the State of Georgia. Additionally, American InterContinental University, including its campus located in the United Kingdom, is accredited by HLC (a U.S. regional accrediting association). U.S. students that attend AIU London are eligible to participate in Title IV financial assistance programs through AIU London s status as a campus of the American InterContinental University. AIU London s University campus status, in the U.K., was recognized by the U.K. Privy Council in 1998. AIU London is a Listed Body with the U.K. s Department for Business Innovation & Skills (BIS). As a Listed Institution, AIU London is entitled to deliver courses that lead to British degrees awarded by its collaborative partners (which are referred to as BIS Recognised Bodies) in the U.K. AIU London s U.K. collaborative partners currently include: London South Bank University, University for the Creative Arts and Buckinghamshire New University. As a Tier 4 student visa sponsor (sponsor No: E5NVVDFC3), AIU London is subject to the U.K. Quality Assurance Agency (QAA) Review of Educational Oversight (REO) scheduled for April 2012, which includes an on-site visit and review. Additionally, AIU London has continuing accreditation in the U.K. by way of its standing with the British Accreditation Council for Independent Further and Higher Education, and this accreditation is valid until April 2013. AIU London is registered in England with Companies House, No: 1373237.

STUDENT FINANCIAL AID

Many of our students require assistance in financing their education. For this reason, our schools participate in financial aid programs and offer financing options to those who qualify. Our U.S. schools and AIU-London are approved to participate in the U.S. Department of Education s Title IV federal aid programs. Our schools also

Table of Contents

participate in a number of state financial aid programs and private funding options. Our schools that participate in federal and state financial aid programs are subject to extensive regulatory requirements imposed by federal and state government agencies, and other standards imposed by educational accrediting bodies.

Nature of Federal Support for Postsecondary Education in the United States

The U.S. government provides a substantial portion of its support for postsecondary education in the form of Title IV Program grants, loans and work-study programs to students who can use those funds to finance certain education related expenses at any institution that has been approved to participate by ED. These federal programs are authorized by the HEA. While most students are eligible for a Title IV loan, more generally, financial aid administered under Title IV is awarded on the basis of financial need, which is generally defined under the HEA as the difference between the costs associated with attending an institution and the amount a student s family can reasonably be expected to contribute based on a federally determined formula. Among other things, recipients of Title IV Program funds must maintain a satisfactory grade point average and progress in a timely manner toward completion of their program of study.

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

Federal Student and Parent Loans

ED s major form of aid includes loans to students and parents through the William D. Ford Federal Direct Loan (DL) Program. Direct Loans are loans made directly by the U.S. Government to students or their parents. The DL program offers Federal Stafford, Federal Parent PLUS, Federal Grad PLUS and Federal Consolidation Loans. Prior to July 1, 2010, students attending CEC institutions utilized loans made under the Federal Family Education Loan (FFEL) Program in addition to DL. The FFEL Program was eliminated March 30, 2010. The law provided that after June 30, 2010 Stafford and PLUS Loans may only be made through the DL program.

Federal Stafford Loans (Stafford Loans), which may either be subsidized or unsubsidized, are loans made to our students directly from the federal government. Students who have demonstrated financial need may be eligible to receive a subsidized Stafford Loan, with ED paying the interest on this loan while the student is enrolled at least half-time in school and during the first six months after leaving school. As part of the Budget Control Act of 2011, beginning July 1, 2012, graduate/professional students receiving subsidized Stafford loans will no longer be eligible for the interest subsidy on their student loans while they are in school. Students who do not demonstrate financial need may be eligible to receive an unsubsidized Stafford Loan. The student is responsible for the interest on an unsubsidized Stafford Loan while in school and after leaving school, although actual interest payments generally may be deferred by the student until after he or she has left school. Students who are eligible for a subsidized Stafford Loan may also be eligible to receive an unsubsidized Stafford Loan.

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

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

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

Federal Grants

Federal Pell Grant and Federal Supplemental Education Opportunity Grant. Title IV Program grants are generally made to our students under the Federal Pell Grant (Pell Grant) program and the Federal Supplemental Educational Opportunity Grant (FSEOG) program. Effective in April 2011, the Continuing Resolution permanently eliminated year-round Pell Grant awards beginning with the 2011 2012 award year. The Continuing Resolution maintains the $5,550 maximum annual Pell Grant for the 2011 2012 award year. However, because the federal Pell Grant program is one of the largest non-defense discretionary spending programs in the federal budget, it is believed to be a target for reduction by Congress. FSEOG program awards are designed to supplement Pell Grants up to a maximum amount of $4,000 per award year for the neediest students. An institution is required to match 33% of the allocation amount from ED for all federal funds received under the FSEOG program. The matching may be accomplished through institutional, private and/or state funds.

Federal Work-Study (FWS) Program

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

Alternative Student Financial Aid Sources

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

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

A financial institution providing a non-recourse loan assumes 100% of the credit risk on the loan. The student, or the student and a co-borrower, must meet the credit criteria established by the financial institution to receive these loans. Each financial institution establishes its own credit criteria and loan limits. Students and co-borrowers generally can borrow an amount equal to the student s cost of attendance less all other financial aid received. SLM Corporation or its subsidiaries (collectively known as Sallie Mae) and Wells Fargo Education Financial Services provided the majority of non-recourse private loans to our students in our U.S. schools during the year ended December 31, 2011.

Prior to March 31, 2008, certain of our students were able to secure recourse loans with Sallie Mae and other financial institutions. These loans provided for partial recourse against the academic institution upon student default. These students did not qualify for non-recourse loans due to low credit scores. The loan amounts available under these recourse loan programs were generally less than the amounts available under non-recourse loan programs and often covered only the direct costs associated with their education less any other financial aid received. On February 14, 2008, we received notification from Sallie Mae that it would no longer continue to offer recourse loans to existing students entering their second or subsequent academic term. Our recourse loan program with Sallie Mae ended on March 31, 2008. Low interest within the U.S. credit markets has made it difficult for us to obtain recourse loan arrangements with other financial institutions. As a result, in the second quarter 2008, we began to offer funding alternatives for eligible students in place of the recourse program that had previously been provided by Sallie Mae. We decided to provide payment plans directly to certain students to ensure that they can finish their existing educational programs with us and to allow new students the opportunity to attend our schools. As of December 31, 2011, we have committed to approximately $110.2 million of funding through extended payment plans. Of this amount, approximately $7.3 million is reflected within our current and non-current student receivables, net of allowance for doubtful accounts and net of deferred tuition revenue, on our consolidated balance sheets. Beginning in 2011, we discontinued providing these payment plans to our new students. We will continue to provide payment plans to current students until they have completed their program of study.

Legislative Action and Recent ED Regulatory Initiatives

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

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

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

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

These new regulations have a significant impact on our business. Among the most significant regulatory changes that we have identified for our business are:

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

- imposition of extensive record-keeping and disclosure requirements regarding the employment of graduates, as part of the gainful employment regulations described below;

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

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

- defining academic attendance to specifically exclude logging into an online class without active participation and otherwise generally limiting the types of activities that qualify as academic attendance in an online environment;

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

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

These rules have required us to change certain of our business practices, incur costs of compliance and of developing and implementing changes in operations, and may affect student recruitment and enrollment, result in changes in or elimination of certain educational programs and have other significant or material effects on our business.

Among other things, these rules will impact or have impacted our compensation programs for persons (including higher level employees) and entities involved in student recruitment, admissions and financial aid, including third-party lead generators and Internet marketing vendors, which may adversely affect:

- our ability to compensate our employees involved in recruitment, admissions and financial aid based on relative merit,
- our recruitment and retention of such employees,
- the motivation and effectiveness of such employees,
- our ability to provide certain forms of compensation to management, impacting recruitment and retention,
- our compensation practices for third-party Internet marketing and lead-generation service providers,
- the quality of leads generated by these third-party service providers and increased cost for leads,
- our marketing costs and marketing strategies, by decreasing marketing efficiency to the extent we conduct direct marketing rather than utilize third-party lead aggregators, and through increasing costs of recruiting and enrolling prospective students, and
- our revenues, if we are unable to maintain or increase the rate of student enrollments.

We have terminated certain compensation payments to our affected employees and have implemented changes in contractual or other arrangements with third parties to change payment structures formerly allowed under ED rules.

Our schools offering distance learning are completing additional applications for licensures or confirming exemptions for their distance learning programs. At this time, the impact and potential costs of these distance learning regulations on our schools is still uncertain but will increase our costs of regulatory compliance, and may delay the introduction of new programs.

The requirements for reporting gainful employment-related information for our programs to ED and to our students will substantially increase our administrative burdens, particularly during the implementation phase. These reporting and the other procedural changes in the new rules could impact student enrollment, persistence and retention in ways that we cannot now predict. For example, if our reported program information compares unfavorably with other reporting educational institutions, it could adversely impact demand for our programs. In addition, the ability of our U.S. schools or OPEIDs to continue to meet the 90-10 Rule, and to therefore qualify to participate in Title IV Program funding, may be negatively impacted by changes we make to comply with gainful employment regulations, by the expiration of temporary relief provided by HEOA for the favorable classification of certain Stafford loan revenues, by changes in the allowable amounts of Pell Grants made annually to students, new regulations or interpretations by ED regarding the types of funding sources classified as non-Title IV Program funds, other ED regulations or interpretations affecting technical aspects of the calculation methodology under the 90-10 Rule, or other factors that we cannot predict or control.

Table of Contents

In addition to the rules, ED routinely issues Dear Colleague Letters to provide sub-regulatory guidance on certain areas of final regulations. The guidance is provided to assist institutions with understanding the regulations in these areas, and does not make any changes to the regulations. ED has issued numerous Dear Colleague Letters to provide further information on other provisions of the program integrity regulations and created a website dedicated to gainful employment information found at http://ifap.ed.gov/GainfulEmploymentInfo/index.html.

On September 27, 2011, ED published a Notice of Proposed Rulemaking (NPRM) to amend regulations for institutional eligibility under the HEA, as reauthorized, and to streamline the application and approval process for new programs, as required by the gainful employment rules. The public comment period ended on November 14, 2011 and ED is reviewing and considering responses to the NPRM before publishing final regulations that would be effective by July 2013.

In April 2011, ED announced its intention to establish one or more negotiated rulemaking committees to propose additional new regulations under the HEA. ED held three public hearings in May 2011, at which interested parties suggested issues that should be considered for action by the negotiating committees. In October 2011, ED announced that it would be establishing two new negotiated rulemaking committees: one to address student loan issues and the other to address issues related to teacher preparation and the Teacher Education Assistance for College and Higher Education (TEACH) grant program. In January 2012, each of the committees held its first working meeting. If the work of either or both of these committees results in proposals for specific new regulations, ED is required to finalize and publish the new regulations by November 1, 2012, in order for the new regulations to take effect July 1, 2013.

OPEID Consolidation

ED assigns each institution an identification number known as the OPEID, or Office of Postsecondary Education Identification number, and the additional locations associated with the institution are included under the institution s OPEID. As of December 31, 2011, we operated 26 separate OPEIDs.

Since June 2011, we have been working with ED, ACICS and numerous state regulators on a project to consolidate as many as 19 separate OPEIDs into a single OPEID. We received approval or acknowledgment for the consolidation from the requisite state regulators as well as ACICS, and submitted the application for consolidation to ED in November 2011. That application is pending. If approved, this consolidation would further simplify and centralize our reporting and compliance efforts, including a unified accreditation schedule, a single Title IV compliance audit and simplified reporting obligations for these campuses. The consolidation also entails certain risks, and will require us to place an even greater emphasis on our Title IV compliance, since a large number of our campuses will be evaluated as a single institution and the continued Title IV eligibility of all of those campuses will depend on their compliance record as a single institution. In terms of the 90-10 Rule, the $2,000 increase in the annual unsubsidized Stafford loans available for undergraduate students and other factors are putting, and will continue to put, significant upward pressure on the 90-10 rates of all of our institutions, including the newly consolidated institution. The consolidation will not alleviate the risks we face in continuing to comply with the 90-10 Rule. Upon completion of the consolidation, we will have another nine to twelve campuses that we plan to combine with the newly consolidated institution in 2012, pending the requisite approvals. Due to the status of various regulatory matters, we were not able to include these campuses in this initial consolidation application.

Although we are working to complete this consolidation as soon as possible, there is a risk that the consolidation will not be approved and completed. Since the consolidation did not occur in fiscal year 2011, we will again prepare separate Title IV compliance audits and report separate compliance metrics for each of the affected OPEIDs for fiscal 2011. Such audits and reports may be filed before or after the consolidation has been approved by ED. If one or more of the OPEIDs we are consolidating failed to meet a regulatory requirement or had a material compliance issue identified in its audit for fiscal year 2011, and ED had not yet approved the consolidation, such a compliance issue could have a negative impact on ED s willingness to approve the consolidation or conditions that ED might attach to such approval. If ED approves the consolidation, and a material compliance issue is subsequently identified in 2011 audits, we would expect ED to review any such situation based on the particular facts and circumstances, and there could be an adverse impact on the terms of the approval of the consolidated institution.

Compliance with Federal Regulatory Standards and Effect of Federal Regulatory Violations

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

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

If the results of any such audits, reviews, investigations, claims, or actions are unfavorable to us, we may be required to pay monetary damages or be subject to fines, operational limitations, loss of federal funding, injunctions, additional oversight and reporting, or other civil or criminal penalties. In addition, if ED or another regulatory agency determined that one of our schools improperly disbursed Title IV Program funds or violated a provision of the HEA or ED s regulations, that school could be required to repay such funds, and could be assessed an administrative fine. We have several such matters pending against us at one or more of our schools. See Note 12 Commitments and Contingencies Accrediting Body and State and Federal Regulatory Matters of the notes to our consolidated financial statements for further discussion of certain of these matters. ED recently moved all of our institutions from what is called the Advance Method of Payment to what is called Heightened Cash Monitoring 1 status. Although our existing practices substantially conformed to the requirements of this more restrictive method of drawing down students Title IV Program funds, ED may find violations of the HEA or ED regulations that would cause ED to transfer our schools to Heightened Cash Monitoring 2 which would substantially delay our receipt of Title IV Program funds and impose additional documentation and waiting period requirements.

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

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

The cohort default rate requirements were modified by the Higher Education Opportunity Act enacted in August 2008 to increase by one year the measuring period for each cohort. Starting in September 2012, ED will publish the official three-year cohort default rates in addition to the two-year rates. Beginning with the 2009 cohort, if an institution s three-year cohort default rate exceeds 30% for any given year, it must establish a default prevention task force and develop a default prevention plan with measurable objectives for improving the cohort default rate. We believe that our current repayment management efforts meet these requirements. If an institution s three-year cohort default rates for the 2009 and 2010 cohorts exceed 30%, the institution may be subject to provisional certification imposing various additional requirements for participation in Title IV Programs.

Beginning with the three-year cohort default rate for the October 2010 to September 2013 period, to be published in September 2014, only the three-year rates will be applied for purposes of measuring compliance with the requirements and imposing sanctions, as follows:

Annual test. If the three-year cohort default rate for any given year exceeds 40%, the institution will cease to be eligible to participate in Title IV Programs; and

Three consecutive years test. If the institution s three-year cohort default rate exceeds 30% (an increase from the current 25% threshold applicable to the two-year cohort default rates) for three consecutive years, beginning with the rate for the October 2008 to September 2011 period and ending with the rate for the October 2010 to September 2013 period, the institution will cease to be eligible to participate in Title IV Programs.

The consequences applicable to two-year cohort default rates will continue to apply for the rates that are published through 2013. An institution whose cohort default rate for any federal fiscal year exceeds 40% will no longer be eligible to participate in the FFEL or DL programs for the remainder of the federal fiscal year in which ED determines that the institution has lost its eligibility and for the two subsequent federal fiscal years. The 40% threshold will not change with the movement to a three-year rate in 2014, but the 40% trigger will not apply to any single three-year cohort default rate until 2014. Please see Part I, Item IA Risk Factors for further discussion of the three-year cohort default rates, as well as recently published trial three-year default rate data for 2006 through 2008.

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

Student loans which have entered repayment are serviced by private organizations and/or ED s preferred student loan servicers. Loans made under the FFEL program may continue to be serviced by private servicing organizations, but the majority of these loans have been sold to ED as part of the Ensuring Continued Access to Student Loans Act of 2008 (ECASLA); private lenders providing federal loans under the FFEL Program were afforded the ability to sell (or PUT) loans to ED as a means to ensure lender liquidity and students continued access to federal loans. PUT loans and those originated through the DL program are now serviced by ED s preferred student loans servicers and are subject to the servicing requirements under ED s contractual arrangements. Initial review of reporting provided by ED related to PUT loan repayment performance has demonstrated a combination of record keeping errors and a significant increase in default rates relative to FFEL serviced loans during the same period. Given early indications of servicing performance related to Direct Loans, student repayment risk may increase as a result of the transition causing an impact to our institutions cohort default rates, which in turn could affect our institutions ability to maintain eligibility for Title IV Programs and could have a material adverse impact on our business, financial condition, results of operations and cash flows. In addition to ED s servicing efforts, we have student loan default management initiatives at all of our schools that participate in Title IV Programs aimed at reducing the likelihood of our students failure to repay their loans in a timely manner. These initiatives emphasize the importance of students compliance with loan repayment requirements and provide for extensive loan counseling and proactive communication with students after they cease enrollment.

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

A listing of the most recent three years of published two-year cohort default rates for each of our main and additional (branch) campus locations for regulatory purposes is provided in the following table:

Table of Contents

COHORT DEFAULT RATE TABLE

School, Main Campus Location (Additional locations as defined by accreditors are in parentheses)	Cohort Default Rate (2 year rate) 2009	2008	2007
American InterContinental University			
Schaumburg, IL (Online) (*Atlanta, GA; Weston, FL; Houston, TX; London, England*)	18.7%	12.3%	10.4%
Briarcliffe College			
Bethpage, NY (*Patchogue, NY)*	14.3%	12.1%	8.5%
Brooks Institute			
Santa Barbara, CA	10.6%	4.4%	0.3%
Brown College			
Mendota Heights, MN *(Brooklyn Center, MN)*	12.9%	3.4%	4.9%
California Culinary Academy			
San Francisco, CA	12.0%	2.4%	4.1%
Colorado Technical University			
Colorado Springs, CO (*Denver, CO; North Kansas City, MO; Sioux Falls, SD; Online*)	16.4%	12.4%	10.9%
Harrington College of Design			
Chicago, IL	8.0%	4.1%	2.9%
International Academy of Design & Technology			
Chicago, IL (*Troy, MI; Schaumburg, IL; Nashville, TN; Collins College; Phoenix, AZ*)	17.6%	7.7%	6.0%
Tampa, FL (*Orlando, FL; Henderson, NV; Sacramento, CA; San Antonio, TX; Seattle, WA; Online; Le Cordon Bleu College of Culinary Arts, Orlando, FL; Sanford-Brown College, Portland, OR*)	16.1%	8.2%	7.7%
Le Cordon Bleu College of Culinary Arts			
Austin, TX *(Dallas, TX; Sacramento, CA; Seattle, WA; and St. Peters, MO; Sanford-Brown College, Collinsville, IL and Hazelwood, MO*)	15.9%	6.7%	7.2%
Pasadena, CA (*Hollywood, CA; Sanford-Brown College, Dearborn, MI; Grand Rapids, MI; Hillside, IL; Indianapolis, IN; Phoenix, AZ; Tinley Park, IL;and Skokie, IL; Sanford-Brown Institute, Orlando, FL*)	9.6%	2.0%	3.2%
Portland, OR *(Tucker, GA; Mendota Heights, MN)*	12.0%	5.5%	5.9%
Scottsdale, AZ (includes Online) (*Las Vegas, NV*)	12.2%	4.8%	6.7%
Le Cordon Bleu College of Culinary Arts in Chicago			
Chicago, IL	18.1%	3.5%	5.9%
Le Cordon Bleu Institute of Culinary Arts			
Pittsburgh, PA *(Le Cordon Bleu College of Culinary Arts, Inc.,a private two year college (Cambridge, MA); Le Cordon Bleu Collegeof Culinary Arts, Miramar, FL*)	11.4%	6.5%	6.3%
Missouri College			
Brentwood, MO	11.4%	4.1%	3.8%

Table of Contents

School, Main Campus Location (Additional locations as defined by accreditors are in parentheses)	Cohort Default Rate (2 year rate) 2009	2008	2007
Sanford-Brown College			
Atlanta, GA *(Columbus, OH; Houston, TX; Houston/North Loop, TX; and Middleburg Heights, OH; Sanford-Brown Institute, Austin, TX; Ft. Lauderdale, FL; Landover, MD; New York, NY; and Trevose, PA)*	18.5%	9.8%	8.9%
Boston, MA *(Sanford-Brown College, Inc., a private two-year college)*	14.2%	11.4%	11.2%
Dallas, TX *(San Antonio, TX; Sanford-Brown Institute, Garden City, NY)*	16.2%	12.5%	9.0%
Farmington, CT	12.6%	13.0%	10.9%
Fenton, MO (*St. Peters, MO)*	16.2%	6.9%	7.4%
McLean, VA	18.9%	10.1%	12.3%
Sanford-Brown Institute			
Jacksonville, FL *(Iselin, NJ; Tampa, FL; Sanford-Brown College, West Allis, WI)*	16.7%	7.9%	7.9%
Pittsburgh, PA *(Pittsburgh, PA)*	15.0%	6.5%	9.1%
White Plains, NY	15.2%	9.2%	13.0%
SBI Campus an Affiliate of Sanford-Brown			
Melville, NY *(Sanford-Brown Institute, Cranston, RI)*	15.5%	13.6%	11.0%

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

To be considered financially responsible, an institution must, among other things, (i) have sufficient cash reserves to make required refunds, (ii) be current on its debt payments, (iii) meet all of its financial obligations, and (iv) achieve a composite score of at least 1.5 based on the institution s annual financial statements. 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 ED s minimum composite score of 1.0 may demonstrate its financial responsibility or satisfy a regulatory alternative in one of several ways, including posting a letter of credit in favor of ED in an amount equal to at least 50% of Title IV Program funds received by the institution during its prior fiscal year or posting a letter of credit in an amount equal to at least 10% of Title IV Program funds received by the institution during its prior fiscal year and agreeing to certain additional requirements for the continued receipt of Title IV Program funds, including, in certain circumstances, receipt of Title IV Program funds under an agreement other than ED s standard advance funding arrangement.

Recent profitability declines at several of our institutions, and CEC on a consolidated basis, has placed downward pressure on our financial responsibility composite scores; however, we believe all of our institutions have continued to maintain a composite score above 1.5 for fiscal 2011. Currently, none of our schools are required to post a letter of credit or accept other conditions on its participation in Title IV Programs due to failure to satisfy ED s financial responsibility standards.

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

Table of Contents

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

Institutions are required to return funds within 45 days of the date the institution determines that the student has withdrawn. An institution that is found to be in non-compliance with ED refund requirements for either of the last two completed fiscal years must post a letter of credit in favor of ED in an amount equal to 25% of the total Title IV Program refunds that were paid or should have been paid by the institution during its prior fiscal year. As of December 31, 2011, we have posted no letters of credit in favor of ED due to non-compliance with ED refund requirements.

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

When we acquire an institution that is eligible to participate in Title IV Programs, that institution undergoes a change of ownership resulting in a change of control as defined by ED. Each of our acquired schools in the U.S. has undergone a certification review under our ownership and has been certified to participate in Title IV Programs on a provisional basis, per ED requirements, until such time that ED signs a new program participation agreement with the institution. Currently, none of our schools are subject to provisional certification status due to ED s change of ownership criteria. The potential adverse effects of a change of control under ED regulations may influence future decisions by us and our stockholders regarding the sale, purchase, transfer, issuance or redemption of our common stock.

Opening New Schools, Start-up 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 or location and participate in Title IV Programs at the start-up campus without reference to the two-year requirement if the start-up campus has received all of the necessary state and accrediting agency approvals, has been reported to ED, and meets certain other criteria as defined by ED. Nevertheless, under certain circumstances, a start-up branch campus may also be required to obtain approval from ED to be able to participate in Title IV Programs. Similarly, under the new gainful employment program approval requirements, a

Table of Contents

proprietary 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 institution applies to ED with all of the gainful employment-related information at least 90 days before the expected start date and ED does not request more information, direct the institution to refrain from disbursing Title IV Program funds to students enrolled in the program pending further ED review, or deny the application.

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

90-10 Rule. Under a provision of the HEA commonly referred to as the 90-10 Rule, a proprietary institution that derives more than 90% of certain revenues in any fiscal year from Title IV sources will be placed on provisional certification status by ED for the institution s following two fiscal years and may be subject to other ED sanctions. If the institution does not satisfy the 90-10 Rule for two consecutive fiscal years, it loses its eligibility to participate in Title IV Programs for at least two fiscal years. If an institution that violates the 90-10 Rule loses its eligibility to participate in Title IV Programs but continues to disburse Title IV Program funds, ED would require the institution to repay all Title IV Program funds received by the institution after the effective date of the loss of eligibility. The 90-10 formula measures revenues received for tuition, fees, institutional charges and certain training activities under a modified form of cash basis accounting. For fiscal year 2011, on a consolidated basis approximately 17% of our U.S. schools revenues, in the aggregate, were derived from non-Title IV sources.

Effective July 1, 2008, the annual unsubsidized Stafford loans available for undergraduate students increased by $2,000. The HEOA provided temporary 90-10 Rule relief from this increase by permitting institutions to count the additional $2,000 in unsubsidized Stafford loans disbursed before July 1, 2011 as revenue not derived from Title IV Programs. This increase in the availability of unsubsidized Stafford loans and other forms of Title IV aid, the expiration of the temporary relief in the HEOA for the increase in the unsubsidized Stafford loan amounts as of July 1, 2011, lack of clarity regarding technical aspects of the calculation methodology under the 90-10 Rule, budget related reductions in state grant and workforce training programs and other alternative funding sources that have historically helped 90-10 rates, plus the impact of changes we made to comply with ED s program integrity regulations, have all adversely affected our schools 90-10 rates and will continue to put upward pressure on our 90-10 rates in fiscal 2012.

In addition, the ability of our U.S. institutions to continue to meet the 90-10 Rule, and therefore qualify to participate in Title IV programs, may be negatively impacted by further changes we make to comply with the final gainful employment regulations, by changes in the allowable amounts of Pell Grants made annually to students, new regulations or interpretations by ED regarding the types of funding sources classified as non-Title IV Program funds in the 90-10 rates, other ED regulations or interpretations affecting technical aspects of the calculation methodology under the 90-10 Rule. Given the large sizes of our institutions, and the reliance of our students on Title IV Program funds, we have limited ability to favorably impact the 90-10 rates at our institutions outside of material increases to tuition rates, which could adversely affect certain of the gainful employment metrics. Without legislative or other relief, these factors will affect our institutions 90-10 rates and will continue to affect the ability of our institutions to satisfy the 90-10 Rule.

The 90-10 Rule, like most other ED requirements, is applied on an institutional basis. We therefore calculate a 90-10 rate for each institution, defined by ED as a main campus and its branch campuses or additional locations.

Table of Contents

We have tentatively calculated that, for our 2011 fiscal year, our institutions 90-10 rates ranged from approximately 61.1% to 94.5%. On February 14, 2012 we notified ED that we believe six of our OPEIDs had 90-10 rates above 90% for the 2011 fiscal year. These six institutions were our Sanford-Brown College institutions in Atlanta, GA, Boston, MA, Farmington, CT, Fenton, MO and McLean, VA, as well as Missouri College in Brentwood, MO. The Sanford-Brown College institution with a main campus in Atlanta, GA includes nine additional locations (Columbus, OH; Austin, TX; Houston, TX; Houston/North Loop, TX; Middleburg Heights, OH; Ft. Lauderdale, FL; Landover, MD; New York, NY; and Trevose, PA) and the Sanford-Brown College institution in Fenton, MO includes one additional location (St. Peters, MO). These six OPEIDs contributed approximately $180 million of revenue and $12 million of operating income for fiscal year 2011.

The six OPEIDs with estimated 90-10 rates above 90% for fiscal year 2011 are all among the institutions included in the pending application for consolidation. These six institutions will cease to separately exist if and when ED approves the consolidation. We would not expect ED to issue them separate 90-10 rates for fiscal year 2012 since they would not exist as separate institutions at the end of fiscal year 2012, but we cannot be certain of ED s procedures in this situation. If ED approves the consolidation, it is uncertain whether the fiscal year 2011 90-10 rates for this smaller group of institutions will affect how ED will calculate or apply the fiscal year 2012 90-10 rate for the larger consolidated institution.

For 2011, in addition to the six institutions discussed above, several of our other institutions had 90-10 rates near 90%. As a result, if current trends continue, management estimates that additional OPEIDs may have 90-10 rates over 90% for the first time for fiscal 2012.

The six institutions that exceeded the 90-10 Rule limit for fiscal year 2011 are now considered, under ED regulations, to be certified on a provisional basis for two years and will be subject to possible additional ED sanctions. While ED has broad discretion to impose additional sanctions on these institutions, there is only limited precedent available to anticipate what those sanctions might be, particularly in the current regulatory environment. ED could specify a wide range of additional conditions as a part of the provisional certification and the institutions continued participation in Title IV Programs. These conditions may include, among other things, restrictions on the total amount of Title IV Program funds that may be distributed to students attending the institutions; restrictions on programmatic and geographic expansion; requirements for the institution to obtain and post letters of credit; and additional reporting requirements to include additional interim financial or enrollment reporting. When an institution is subject to provisional certification at the time that its program participation agreement expires, ED also has greater discretion in considering the conditions to attach if it recertifies such institution. Sanford-Brown College McLean, Sanford-Brown College Fenton and Sanford-Brown College, Inc., a private two year college (Boston) all have program participation agreements set to expire before the end of 2013. Any of our institutions that derive more than 90% of their revenue from Title IV Programs for two consecutive fiscal years will be ineligible to participate in Title IV Programs for at least two fiscal years.

The ability of our institutions to maintain 90-10 rates below 90% will depend on the impact of future changes in our enrollment mix, and regulatory and other factors outside of our control, including any reduction in government assistance for military personnel, including veterans, or changes in the treatment of such funding for purposes of the 90-10 rate calculation.

It will also depend on the effectiveness of various initiatives we are taking or considering to reduce the percentage of our receipts attributable to Title IV Program funds, including: emphasizing direct-pay and employer-paid education programs; supporting state workforce training development programs; encouraging students to carefully evaluate the amount of their Title IV borrowing; developing work study programs; eliminating certain programs; increasing tuition; and developing alternative lending programs. There can be no assurance, however, that these measures will be adequate to prevent the 90-10 rates for some of our institutions from exceeding 90% in the future, which could ultimately materially affect our future operating results.

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

Table of Contents

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

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

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

Currently, Briarcliffe College and Sanford-Brown College Boston remain on provisional certification with ED. Briarcliffe College is on provisional certification due to ongoing open ED program reviews and is working closely with ED to become recertified by mid-2013. Sanford-Brown College Boston is on provisional certification due to ED concerns about the school s administrative capability and is also working with ED to become recertified by mid-2013. Provisional certification for both Briarcliffe College and Sanford-Brown College Boston will expire on June 30, 2013. Additionally, as noted above, each of the institutions that we reported to ED that had 90-10 rates above 90% in fiscal 2011 are now considered to be on provisional certification for the next two years.

OTHER INFORMATION

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

Table of Contents

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

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

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

A significant portion of our U.S.-based students rely on student aid and loan programs under Title IV of the HEA (Title IV Programs) and we derive a substantial portion of our revenue and cash flows from Title IV Programs. For example, for the fiscal year ended December 31, 2011, approximately 83% of our U.S.-based students who were in a program of study at any date during that year participated in student aid and loans under Title IV Programs, which resulted in cash receipts recorded by the Company of approximately $1.4 billion.

All of our U.S. schools participate in Title IV Programs and are subject to extensive regulation by ED, various state agencies and accrediting commissions. To participate in Title IV Programs, a school must receive and maintain authorization by the appropriate state education agencies, be accredited by an accrediting commission recognized by ED, and be certified by ED as an eligible institution. Most ED requirements are applied on an institutional basis, with an institution defined by ED as a main campus and any of its branch campuses or additional locations. Each institution is assigned an identification number known as an OPEID, or Office of Postsecondary Education Identification number, with each institution s branches and other locations assigned to the institution s OPEID.

The regulations, standards and policies of our regulators change frequently and are subject to interpretation, particularly where they are crafted for traditional, academic term-based schools rather than our non-term academic delivery model. Changes in, or new interpretations of, applicable laws, regulations or standards could have a material adverse effect on our accreditation, authorization to operate in various states, permissible activities, receipt of funds under Title IV Programs, or costs of doing business. We cannot predict with certainty how all of the requirements applied by our regulators will be interpreted or whether our schools will be able to comply with these requirements in the future.

From time to time, we identify compliance deficiencies that we must address and, where appropriate, report such deficiencies to ED. Such reporting, even in regard to a minor or inadvertent compliance issue, could result in a more significant compliance review by ED or even a full recertification review, which may require the expenditure of substantial administrative time and resources to address. If ED concluded that these reported deficiencies reflect a lack of administrative capability, we or the particular institutions could be subject to additional sanctions or even lose our eligibility to participate in Title IV Programs.

Findings or allegations of noncompliance may subject us to *qui tam* lawsuits under the Federal False Claims Act, under which private plaintiffs seek to enforce remedies on behalf of the U.S. and, if successful, are entitled to recover their costs and to receive a portion of any amounts recovered by the U.S. in the lawsuit.

Our U.S. schools could lose their eligibility to participate in federal student financial aid programs if the percentage of their revenues derived from Title IV Programs is too high, in which event we could not conduct our business as it is currently conducted.

Any of our U.S. schools or OPEIDs may lose eligibility to participate in Title IV Programs if, on modified cash basis accounting, the percentage of the cash receipts derived from Title IV Programs for two consecutive fiscal years is greater than 90%. Under HEA s 90-10 Rule, an OPEID that derives more than 90% of its cash receipts from Title IV sources for a fiscal year will be placed on provisional participation status for its next two fiscal years. If the OPEID does not satisfy the 90-10 Rule for two consecutive fiscal years, it will lose its eligibility to participate in the Title IV Programs for at least two fiscal years. If the OPEID violates the 90-10 Rule and becomes ineligible to participate in Title IV Programs but continues to disburse Title IV Program funds, ED would require repayment of all Title IV Program funds received by it after the effective date of the loss of eligibility.

Effective July 1, 2008, the annual unsubsidized Stafford loans available for undergraduate students was increased by $2,000. The Higher Education Opportunity Act (HEOA) provided temporary 90-10 Rule relief from this increase by permitting institutions to count the additional $2,000 in Stafford loans dispersed before July 1, 2011 as revenue not derived from Title IV Programs. Several factors have adversely affected our schools ability to comply with the 90-10 Rule, including: the increase in Title IV Program aid availability, the expiration of the temporary relief in the HEOA with respect to unsubsidized Stafford loans as of July 1, 2012, lack of clarity regarding technical aspects of the calculation methodology under the 90-10 Rule, budget-related reductions in state grant and workforce training programs and other alternative funding sources that have historically helped schools in our industry to comply with the 90-10 Rule, plus the impact of ED s program integrity regulations discussed below. Additionally, we expect these factors to cause our schools 90-10 rates to worsen in each of fiscal 2011 and 2012 as compared to our historical rates.

We have implemented in recent years various measures intended to reduce the percentage of our institution s cash basis revenue attributable to Title IV Program funds, including emphasizing employer-paid and other direct-pay education programs and counseling students to carefully evaluate the amount of necessary Title IV Program borrowing. Although we believe these measures will favorably impact our schools 90-10 Rule percentages, they have had only limited impact to date and there is no assurance that they will be adequate to prevent our schools 90-10 Rule percentages from exceeding 90% in the future. We have substantially no control over the amount of Title IV student loans and grants sought by or awarded to our students.

Because of the increases in Title IV Program student loan limits and grants in recent years, we believe that many proprietary institutions are experiencing difficulty with respect to 90-10 Rule compliance. In our view, one potential unintended consequence of this pressure is higher tuition rates. This is because one of the more effective methods of reducing the 90-10 Rule percentage is to increase tuition prices above the applicable maximums for Title IV Program student loans and grants, requiring students to seek other sources of funding to pay eligible tuition and fees in order to reduce the percentage of revenue from Title IV sources. However, this consequence directly undermines ED s interest in promoting affordable postsecondary education. Although modification of the rule could limit this undesirable impact on tuition, there is no assurance that ED, or Congress, will address this problem by modifying the rule or will address it in a manner that timely and favorably impacts compliance by our institutions. We currently anticipate raising tuition at several of our campuses and programs that are under pressure to comply with the 90-10 Rule, which could adversely affect our enrollment, our cohort default rates and gainful employment metrics.

We have tentatively calculated that, for our 2011 fiscal year, our institutions 90-10 Rule percentages ranged from approximately 61.1% to 94.5%. On February 14, 2012, we notified ED that we believe six of our OPEIDs had 90-10 Rule percentages above 90% for the 2011 fiscal year. These six institutions were our Sanford-Brown College institutions in Atlanta, GA, Boston, MA, Farmington, CT, Fenton, MO and McLean, VA as well as Missouri College, Brentwood, MO. The Sanford-Brown College institution in Atlanta, GA includes nine additional locations (Columbus, OH; Austin, TX; Houston, TX; Houston/North Loop, TX; and Middleburg Heights, OH; Sanford-Brown Institute, Ft. Lauderdale, FL; Landover, MD; New York, NY; and Trevose, PA) and the Sanford-Brown College institution in Fenton, MO includes one additional location (St. Peters, MO). These six OPEIDs contributed approximately $180 million of 2011 revenues and $12 million of operating income.

Table of Contents

The six institutions that exceeded the 90-10 Rule limit in 2011 are now considered to be on provisional certification for two years and will be subject to possible additional ED sanctions. While ED has broad discretion to impose additional sanctions on these institutions, there is only limited precedent available to predict what those sanctions might be, particularly in the current regulatory environment. ED could specify a wide range of additional conditions as part of the provisional certification and the institutions continued participation in Title IV Programs. These conditions may include, among other things, restrictions on the total amount of Title IV Program funds that may be distributed to students attending the institutions; restrictions on programmatic and geographic expansion; requirements to obtain and post letters of credit; and additional reporting requirements to include additional interim financial or enrollment reporting. Should an institution become subject to such provisional certification at the time that its program participation agreement expires, the effect on the institution s recertification or its continued eligibility to participate in Title IV Programs pending recertification is uncertain. Any of our institutions that derive more than 90% of its revenue from Title IV Programs for two consecutive fiscal years will lose their eligibility to participate in Title IV Programs for at least two fiscal years. In such event, such institutions operating and financial results would be materially adversely affected.

Any necessary further efforts to reduce the 90-10 Rule percentage for our institutions, especially if the percentage exceeds 90% for a fiscal year, may involve taking measures that reduce our revenue, increase our operating expenses, or both, in each case perhaps significantly. If the 90-10 Rule is not changed to provide relief for proprietary institutions, we may be required to make structural changes to our business in order to remain in compliance, which changes may materially alter the manner in which we conduct our business and materially and adversely impact our business, financial condition, results of operations and cash flows. Furthermore, these required changes could make more difficult our ability to comply with other important regulatory requirements, such as the cohort default rate regulations.

Our U.S. schools may lose their eligibility to participate in Title IV Programs if their student loan cohort default rates are greater than the standards set by ED.

To remain eligible to participate in Title IV Programs, our schools must maintain student loan cohort default rates below specified levels. ED calculates an educational institution s cohort default rate annually as a measure of administrative capability. Each cohort is the group of students who first enter into student loan repayment during a federal fiscal year (ending September 30). The currently applicable cohort default rate for each cohort is the percentage of the students in the cohort who default on their student loans prior to the end of the following federal fiscal year, which represents a two-year measuring period. The cohort default rates are published by ED approximately 12 months after the end of the measuring period. Thus, in September 2011, ED published the two-year cohort default rates for the 2009 cohort, which measured the percentage of students who first entered into repayment during the year ended September 30, 2009 and defaulted prior to September 30, 2010. As discussed below, the measurement period for the cohort default rate has increased to three years starting with the 2009 cohort, and the three-year cohort default rates for the 2009 cohort are expected to be issued by ED in draft form in the first quarter of 2012 and published by ED in September 2012.

If an educational institution s two-year cohort default rate exceeds 10% for any one of the three preceding years, it must delay for 30 days the release of the first disbursement of U.S. federal student loan proceeds to first time borrowers enrolled in the first year of an undergraduate program. As a matter of regular practice, all of our institutions have implemented a 30-day delay for such disbursements. If an institution s two-year cohort default rate exceeds 25% for three consecutive years or 40% for any given year, it will become ineligible to participate in Title IV Programs and, as a result, its students would not be eligible for federal student financial aid. See Part I, Item 1 of this Annual Report on Form 10-K for a table listing each of our educational institution s two-year cohort default rates. We believe the cohort default rates of our schools have been increasing over the past several years due to the challenging economic climate, and changes in the manner in which student loans are serviced.

The July 2010 elimination of the Federal Family Education Loan Program (FFELP), under which private lenders originated and serviced federally guaranteed student loans, and the resulting migration of all federal

Table of Contents

student loans to the Federal Direct Loan Program under which the federal government lends directly to students, could adversely impact loan repayment rates and our schools cohort default rates, if the federal government is less effective in promoting timely repayment of federal student loans than the private lenders were under the FFELP.

If our student loan default rates approach applicable limits, we may be required to increase our efforts and resources dedicated to improving these default rates. In addition, because there is a lag between the funding of a student loan and a default thereunder, many of the borrowers who are in default or at risk of default are former students with whom we may have only limited contact. Accordingly, we may not be able to effectively improve our default rates or improve them in a timely manner to meet the requirements for continued participation in Title IV Program funding if we experience a substantial increase in our student loan default rates.

The cohort default rate requirements were modified by the HEOA enacted in August 2008 to increase by one year the measuring period for each cohort. Starting in September 2012, ED will publish the official three-year cohort default rates in addition to the two-year rates. Beginning with the 2009 cohort, if an institution s three-year cohort default rate exceeds 30% for any given year, it must establish a default prevention task force and develop a default prevention plan with measurable objectives for improving the cohort default rate. We believe that our current repayment management efforts meet these requirements. If an institution s three-year cohort default rates for the 2009 and 2010 cohorts exceed 30%, the institution may be subject to provisional certification imposing various additional requirements for participation in Title IV Programs.

Beginning with the three-year cohort default rate for the 2011 cohort to be published in September 2014, only the three-year rates will be applied for purposes of measuring compliance with the requirements and imposing sanctions, as follows:

- *Annual test*. If the three-year cohort default rate for any given year exceeds 40%, the institution will cease to be eligible to participate in Title IV Programs; and

- *Three consecutive years test*. If the institution s three-year cohort default rate exceeds 30% (an increase from the current 25% threshold applicable to the two-year cohort default rates) for three consecutive years, beginning with the 2009 cohort, the institution will cease to be eligible to participate in Title IV Programs.

The consequences applicable to two-year cohort default rates will continue to apply through calendar year 2013 for the fiscal 2011 cohort.

In December 2009, ED released unofficial trial calculations of schools cohort default rates based on the new three-year repayment and default period mandated by a change in the Higher Education Act. The trial rates were for the 2005, 2006 and 2007 cohorts, meaning for students who entered repayment on their loans during the three fiscal year periods between October 2004 and September 2007. In issuing these trial rates, ED reminded institutions that the rates were unofficial, that they were being provided for information only, and that no sanctions would result from these rates. Further, because these were unofficial rates with no consequences, ED did not allow schools to challenge or appeal the rates and the data underlying them. ED also stated that the rates did not reflect certain adjustments that ED would normally have made if it were issuing official cohort default rates (for example, fewer than 30 borrowers in a cohort, low participation, mergers, recalculations due to appeals, and other adjustments). For the 2006 and 2007 cohorts, none of our institutions were above the regulatory thresholds that will take effect in 2014.

In February 2011, ED released the trial calculations of schools three year cohort default rates for the 2008 cohort. Following criticism by the higher education community of ED s calculations of the trial rates, ED withdrew them, recalculated them and re-issued revised trial rates in April 2011 noting that the trial rates that had been previously released were incorrectly inflated. In doing so, ED again advised schools that these were unofficial, trial rates with no sanctions tied to them and no ability to appeal or challenge them. ED does not ever plan to allow schools to challenge the calculation of their individual trial three-year cohort default rates for 2008 cohort, or to issue official three-year cohort default rates for that year.

Table of Contents

ED is expected to issue more authoritative three-year cohort default rates for students who entered repayment on their loans between October 2008 and September 2009, in the first quarter of 2012, but even those will be draft rates, which schools will be able to challenge in certain ways, and will not be official cohort default rates, which are expected to be issued sometime in the fall of 2012.

A listing of the most recent three years of published trial three-year cohort default rates for each of our main and additional (branch) campus locations for regulatory purposes is provided in the following table:

School, Main Campus Location	Cohort Default Rate (3 year trial rate)		
(Additional locations as defined by accreditors are in parentheses)	2008	2007	2006
American InterContinental University			
Schaumburg, IL (Online) *(Atlanta, GA; Weston, FL; Houston, TX; London, England)*	21.5%	19.7%	16.2%
Briarcliffe College			
Bethpage, NY *(Patchogue, NY)*	20.7%	17.1%	14.7%
Brooks Institute			
Santa Barbara, CA	12.2%	6.7%	4.2%
Brown College			
Mendota Heights, MN *(Brooklyn Center, MN)*	12.8%	14.9%	14.1%
California Culinary Academy			
San Francisco, CA	15.4%	9.4%	9.4%
Colorado Technical University			
Colorado Springs, CO *(Denver, CO; North Kansas City, MO; Sioux Falls, SD; Online)*	23.1%	22.3%	23.8%
Harrington College of Design			
Chicago, IL	12.0%	7.7%	5.3%
International Academy of Design & Technology			
Chicago, IL *(Troy, MI; Schaumburg, IL; Nashville, TN; Collins College; Phoenix, AZ)*	22.6%	15.7%	17.0%
Tampa, FL *(Orlando, FL; Henderson, NV; Sacramento, CA; San Antonio, TX; Seattle, WA; Online; Le Cordon Bleu College of Culinary Arts Orlando, FL; Sanford-Brown College, Portland, OR)*	20.2%	17.2%	15.2%
Le Cordon Bleu College of Culinary Arts			
Austin, TX *(Dallas, TX; Sacramento, CA; Seattle, WA; and St. Peters, MO; Sanford-Brown College, Collinsville, IL and Hazelwood, MO)*	22.0%	13.3%	19.8%
Pasadena, CA *(Hollywood, CA; Sanford-Brown College, Dearborn, MI; Grand Rapids, MI; Hillside, IL; Indianapolis, IN; Phoenix, AZ; Tinley Park, IL; and Skokie, IL; Sanford-Brown Institute, Orlando, FL)*	14.9%	8.4%	11.1%
Portland, OR *(Tucker, GA; Mendota Heights, MN)*	19.8%	12.5%	14.6%
Scottsdale, AZ (includes Online) *(Las Vegas, NV)*	20.0%	17.0%	16.6%
Le Cordon Bleu College of Culinary Arts in Chicago			
Chicago, IL	18.6%	12.1%	15.3%
Le Cordon Bleu Institute of Culinary Arts			
Pittsburgh, PA *(Le Cordon Bleu College of Culinary Arts, Inc., a private two year college (Cambridge, MA); Le Cordon Bleu College of Culinary Arts, Miramar, FL)*	19.7%	15.6%	15.7%

Table of Contents

School, Main Campus Location	Cohort Default Rate (3 year trial rate)		
(Additional locations as defined by accreditors are in parentheses)	2008	2007	2006
Missouri College			
Brentwood, MO	20.0%	16.4%	16.9%
Sanford-Brown College			
Atlanta, GA *(Columbus, OH; Houston, TX; Houston/North Loop, TX; and Middleburg Heights, OH; Sanford-Brown Institute, Austin, TX; Ft. Lauderdale, FL; Landover, MD; New York, NY; and Trevose, PA)*	24.7%	20.8%	21.4%
Boston, MA *(Sanford-Brown College, Inc., a private two-year college)*	27.4%	24.6%	23.8%
Dallas, TX *(San Antonio, TX; Sanford-Brown Institute, Garden City, NY)*	27.2%	19.7%	18.3%
Farmington, CT	28.5%	24.9%	17.4%
Fenton, MO *(St. Peters, MO)*	20.9%	23.0%	20.2%
McLean, VA	25.4%	25.3%	27.4%
Sanford-Brown Institute			
Jacksonville, FL *(Iselin, NJ; Tampa, FL; Sanford-Brown College, West Allis, WI)*	20.5%	20.5%	16.3%
Pittsburgh, PA *(Pittsburgh, PA)*	15.4%	22.3%	20.7%
White Plains, NY	22.1%	24.6%	25.5%
SBI Campus an Affiliate of Sanford-Brown			
Melville, NY *(Sanford-Brown Institute, Cranston, RI)*	18.6%	21.9%	21.0%

A failure to demonstrate administrative capability or financial responsibility may result in the loss of our schools eligibility to participate in Title IV Programs, which would materially and adversely affect our business.

To participate in Title IV Programs, our schools must satisfy specific measures of financial responsibility prescribed by ED, or post a letter of credit in favor of ED and possibly accept other conditions on its participation in Title IV Programs. Pursuant to the Title IV Program regulations, each eligible higher education institution must satisfy a measure of financial responsibility that is based on a weighted average of three annual tests which assess the financial condition of the institution. The three tests measure primary reserve, equity and net income ratios. The Primary Reserve Ratio is a measure of an institution s financial viability and liquidity. The Equity Ratio is a measure of an institution s capital resources and its ability to borrow. The Net Income Ratio is a measure of an institution s profitability. These tests provide three individual scores that are converted into a single composite score. The maximum composite score is 3.0. If the institution achieves a composite score of at least 1.5, it is considered financially responsible. A composite score from 1.0 to 1.4 is considered to be in the zone of financially responsibility, and the institution may continue to participate as a financially responsible institution for up to three years, subject to additional monitoring and other consequences. If an institution does not achieve a composite score of at least 1.0, it may demonstrate its financial responsibility or satisfy an alternative by posting a letter of credit in favor of ED in an amount equal to at least 50% of Title IV Program funds received by the institution in its prior fiscal year or posting a letter of credit in an amount equal it at least 10% of Title IV Program funds received by the institution in its prior fiscal year and accepting provisional certification and other conditions. These conditions could include being transferred from the advance system of payment of Title IV Program funds to cash monitoring status or to the reimbursement system of payment, under which the institution must disburse its own funds to students and document the students eligibility for Title IV Program funds before receiving such funds from ED, which could result in a significant delay in receiving such funds.

ED applies its quantitative financial responsibility tests annually based on the school s audited financial statements and may apply the tests if a school undergoes a change in control or under other circumstances. ED also may apply the tests to us, as the parent company of our schools, and to other related entities. Recent profitability declines at several of our institutions have placed downward pressure on our financial responsibility composite scores; however, we believe all of our institutions, as well as the Company, on a consolidated basis, have continued to maintain a composite score above 1.50 for fiscal 2011.

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

If our schools fail to maintain administrative capability or financial responsibility, as defined by ED, they could lose their eligibility to participate in Title IV Programs or have that eligibility adversely conditioned, which would have a material adverse effect on our business. Limitations on, or termination of, participation in Title IV Programs as a result of the failure to demonstrate administrative capability or financial responsibility would limit students access to Title IV Program funds, which would significantly reduce the enrollments and revenues of our schools eligible to participate in Title IV Programs and materially and adversely affect our business, financial condition, results of operations and cash flows.

If any of our programs fail to qualify as programs leading to gainful employment in a recognized occupation under ED regulations, students in those programs would be unable to obtain Title IV Program funds to finance their education and, if student demand for those programs declined significantly, we may determine to cease offering those programs.

Under the HEA, proprietary schools are eligible to participate in Title IV Programs only in respect of educational programs that lead to gainful employment in a recognized occupation, which include all of the educational programs offered by all of our schools. Beginning July 1, 2011, proprietary institutions of higher education and public or not-for profit institutions offering postsecondary non-degree programs must disclose to prospective students the following information for each Title IV eligible program: the occupations that a program prepares students to enter, along with links to occupational profiles on O*NET (http://www.onetonline.org/); the estimated cost for students to complete the program, including tuition, fees, books, and other related costs; on-time graduation rates as defined by regulation; the median loan debt of program completers; and placement rates for the program, if a placement rate is required by an institutional or programmatic accreditor or a state regulator. Beginning in November 2011, institutions must annually submit information to ED about all students who were enrolled in or completed one of the institution s Title-IV eligible programs which lead to gainful employment in a recognized occupation in the preceding years. The information to be reported to ED includes: identifying information for each student and the institution; the name and Classification of Instructional Program (CIP) code of that program; the amount of debt owed by the student under private loans and/or institutional finance plans, matriculation information if the student matriculated to a higher credentialed program; and end of year enrollment information. Additionally, beginning July 1, 2011 the final regulations require institutions to notify ED at least 90 days before the commencement of new educational programs leading to gainful employment in recognized occupations where the institution is seeking to distribute Title IV Program funds to enrollees of the new program. This notification must include new types of information not previously required in such applications, such as the following: a statement regarding the institution s demonstrated financial responsibility and administrative capability of the institution; a statement outlining how the institution determined the demand for the program; a wage analysis; an institutional program review and approval process. Unless ED, in its discretion, requires approval for new programs, a school is not required to obtain formal ED approval if the notification is submitted on a timely basis. If such approval is required, an alert notice will be sent to the school at least 30 days before the first day of class with a request for additional information. If a new

Table of Contents

program is denied, ED will explain how the program failed and provide an opportunity for the school to respond or request reconsideration.

ED promulgated final regulations on June 13, 2011, imposing additional Title IV Program eligibility requirements on educational programs leading to gainful employment. The final regulations are conceptually similar to proposed regulations proposed by ED in 2010, but relax certain requirements and extend the time period for compliance. The final gainful employment rules define for the first time the standards that will be used to measure whether an educational program prepare students for gainful employment as that term is used in the HEA. The rules establish three annual standards related to student loan borrowing by which gainful employment will be measured, effective July 1, 2012:

1. Annual loan repayment rate, which assesses whether the federal student loan debt incurred by the applicable cohort of borrowers to attend the program is being repaid at a rate that implies the cohort received an education that enabled them to find gainful employment and successfully repay their loans. The most common calculation of the annual loan repayment rate for an academic program is the percentage of total student loans incurred by a cohort of borrowers to fund the costs of a program that are in satisfactory repayment status up to two to four years after the cohort of borrowers entered repayment. Generally, an individual loan is considered in satisfactory repayment status if the borrower has made payments that reduce the outstanding principal on the loan as of the first day of the federal fiscal year. Rates are calculated on a federal fiscal year basis. The repayment rate must be at least 35%. Institutions will be able to challenge the repayment rate data using a process somewhat similar to one used to challenge cohort default rates.

2. Discretionary income threshold, which determines whether the annual repayment required on total student loan debt of students who completed an academic program is reasonable compared to their discretionary income. For purposes of determining the annual loan repayment amount for a given student, ED will use the lesser of the amount of student loan debt incurred by the student or the total amount of tuition and fees the institution charged the student for enrollment in all programs at the institution, if tuition and fee information is provided by the institution. The median annual loan payment amount for the applicable cohort of students (calculated as described below) may not be greater than 30% of the greater of their average or median discretionary income. Discretionary income is the annual earnings of a program completer minus 150% of the U.S. Department of Health and Human Services (HHS) poverty guideline for a single person. The debt-to-discretionary income ratio examines students in their third or fourth year after graduation, calculated on a federal fiscal year basis.

3. Actual earnings threshold, which determines whether the annual repayment required on total student loan debt of students who completed an academic program is reasonable when compared to their actual annual earnings. For purposes of determining the annual loan repayment for a given student, ED will use the lesser of the amount of student loan debt incurred by the student or the total amount of tuition and fees the institution charged the student for enrollment in all programs at the institution, if tuition and fee information is provided by the institution. The median annual loan payment amount for the applicable cohort of students (calculated as described below) may not be greater than 12% of the greater of their average or median annual earnings. The debt-to-actual earnings ratio examines students in their third or fourth year after graduation, calculated on a federal fiscal year basis.

An academic program that passes any one standard for a given year is considered to be preparing students for gainful employment. If an academic program fails all three metrics for a given year, the institution will have to provide additional disclosures or warnings, but will also have the opportunity to improve the performance of that program. After one failure, the institution must disclose to students and prospective students the amount by which the program missed the minimal acceptable performance and the program s plan for improvement. After two failures within three years, the institution must inform students in the failing program that their debts may be unaffordable, that the program may lose eligibility, and what transfer options exist. After three failures within four years, the academic program loses eligibility to participate in Title IV Programs for at least three years, although the program could be continued without Title IV Program funding. If a particular program ceased to be eligible for Title IV Program funding, in most cases it would not be practical to continue offering that program under our current business model.

Table of Contents

The earliest a program could lose eligibility under the gainful employment rule will be 2015, based on the 2012, 2013 and 2014 metrics.

Because ED s gainful employment rules will be implemented over several years and are based at least in part on data that is unavailable to us, it is not possible at this time to determine with any degree of certainty whether it will cause any of our programs to become ineligible for Title IV Program funding. ED will limit the number of programs that will lose eligibility based on failing all of the debt measures for three years out of four to no more than 5% of programs (weighted by enrollment) at proprietary institutions. It is possible that certain of our programs, primarily within our Culinary Arts and Art & Design programs, may be unable to maintain eligibility to enroll students receiving Title IV Program funds or have restrictions placed upon program offerings as a result of not meeting prescribed metrics. Such loss of or restrictions to program eligibility may result in us determining to terminate or modify the affected programs under our current business model, and also result in a realignment of the types of educational programs we offer in order to comply with the new rules.

Although the final rules regarding gainful employment metrics provide opportunities to address program deficiencies before the loss of Title IV Program eligibility, the continuing eligibility of our educational programs for Title IV Program funding is at risk due to factors beyond our control, such as changes in the actual or deemed income level of our graduates, changes in student borrowing levels, increases in interest rates, changes in the federal poverty income level relevant for calculating discretionary income, changes in the percentage of our former students who are current in repayment of their student loans, and other factors. In addition, the disclosure requirements to students following a failure to meet the standards may adversely impact enrollment in that program and may adversely impact the reputation of our educational institutions. The exposure to these external factors may reduce our ability to offer or continue certain types of programs for which there is market demand, thus impacting our ability to maintain or grow our business.

The requirements for reporting information relating to our programs to ED and to our students will substantially increase our administrative burdens, particularly during the implementation phase. These reporting and the other procedural changes in the new rules could impact student enrollment, persistence and retention in ways that we cannot now predict. For example, if our reported program information compares unfavorably with other reporting educational institutions, it could adversely impact demand for our programs.

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

Both the U.S. House of Representatives Education and Labor Committee and the U.S. Senate Health, Education, Labor and Pensions Committee (HELP Committee) commenced a series of hearings into the proprietary postsecondary education sector in June 2010, including accreditation matters, student debt, student recruiting, student success and outcomes, and other matters, which hearings are ongoing. The U.S. Senate also released a report, Emerging Risk?: An Overview of Growth, Spending, Student Debt and Unanswered Questions in For-Profit Higher Education. The Chairmen of each of these education committees, together with other members of Congress, requested the Government Accountability Office (GAO) to conduct a review and prepare a report with recommendations regarding various aspects of the proprietary sector, including recruitment practices, educational quality, student outcomes, the sufficiency of integrity safeguards against waste, fraud and abuse in federal student aid programs and the degree to which proprietary institutions revenue is composed of Title IV Program and other federal funding sources. In addition, in August 2010, the HELP Committee requested information from 30 companies operating proprietary schools, including us and other proprietary publicly traded companies providing postsecondary education services. We provided documents and information in response to the HELP Committee s request. In September 2010, the HELP Committee released a second report, The Return on the Federal Investment in For-Profit Education: Debt Without a Diploma. Senator Harkin has held subsequent hearings and roundtable discussions, most recently on July 21, 2011. On September 22, 2011, Senator

Tom Carper, the Chairman of the Senate Homeland Security and Government Affairs Subcommittee on Federal Financial Management, Government Information, Federal Services and International Security, held a hearing on Improving Educational Outcomes for Our Military and Veterans that covered the quality of education and treatment of educational benefits for military personnel for purposes of the 90-10 Rule. These hearings, the requested GAO review and the HELP Committee s information request could lead to adverse legislation, additional new ED regulatory requirements, negative media coverage, federal or other investigations of the proprietary postsecondary education industry, or third-party litigation related to information arising from these activities.

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

The confluence of the increasing scrutiny in Congress of the proprietary education sector and the unprecedented budget deficits increases the likelihood of new legislation that will adversely impact our business. For example, Congress could extend the elimination of the in-school interest subsidy to undergraduate students or to undergraduate students in proprietary institutions, reduce the maximum amount of or change the eligibility standards for student loans and/or Pell Grants or make other material changes in Title IV Programs driven by policy considerations, economic considerations or both. Any action by Congress that significantly reduces Title IV Program funding, whether through across-the-board funding reductions, sequestration or otherwise, or materially impacts the eligibility of our institutions or students to participate in Title IV Programs would have a material adverse effect on our enrollment, financial condition, results of operations and cash flows. Congressional action could also require us to modify our practices in ways that could increase our administrative costs and reduce our operating income, which could have a material adverse effect on our financial condition, results of operations and cash flows.

If Congress significantly reduced the amount of available Title IV Program funding, we would attempt to arrange for alternative sources of financial aid for our students, which may include lending funds directly to our students, but private sources would not be able to provide as much funding to our students on as favorable terms as is currently provided by Title IV. In addition, private organizations could require us to guarantee all or part of this assistance and we might incur other additional costs. For these reasons, private, alternative sources of student financial aid would only partly offset, if at all, the impact on our business of reduced Title IV Program funding.

We are in the process of consolidating most of our nationally accredited institutions with separate OPEIDs into a single institution and single OPEID. The consolidation process itself is complicated and has risks as does our continued operation of so many campuses as a single institution for Title IV Program compliance purposes.

Since June 2011, we have been working with ED, ACICS and numerous state regulators to consolidate as many as 19 separate institutions or OPEIDs into a single institution or OPEID. The consolidation will require internal reprogramming of our systems and Title IV Program aid processing realignment that could adversely impact operations. The consolidation will create certain risks. Because the Title IV Program compliance of so many of our campuses will be evaluated as a single institution, compliance issues at one campus could result in a sanction or other action that negatively impacts the whole group (for instance, a problem at a single campus could lead ED to limit the ability of all of the campuses within the consolidated OPEID to add new programs or take such actions against the consolidated group of campuses). Another result of this consolidation will be the calculation of a single student loan cohort default rate and a single rate under the 90-10 Rule for all of the campuses within the consolidated institution. This consolidation will not alleviate the risks we face in continuing to comply with the 90-10 Rule.

We have received all the requisite approvals and acknowledgements to proceed with the consolidation from our state regulators and institutional accreditor and are awaiting approval of our application from ED. On

December 27, 2011 we received a letter from ED requesting all of our regulatory correspondence with all state agencies and accreditors dating back to June 30, 2010. ED noted in its request that it would defer any final approval of our application for the consolidation pending its review of the materials provided**.** Because the consolidation did not occur prior to the end of fiscal 2011, we will again prepare separate Title IV Program compliance audits and report separate compliance metrics for each of our affected OPEIDs for fiscal 2011. As previously noted, we have reported to ED that we believe six of our OPEIDs that are part of the outstanding consolidation application did not satisfy the 90-10 Rule in 2011. It is unclear what impact this will have on ED s review of our application or the terms of any approval of the consolidated group of schools. It is also unclear what the impact would be on our consolidation application or the terms of any approval on the consolidated group of schools if one or more of the OPEIDs we are consolidating were to fail to meet other regulatory requirements or have a material compliance issue arise in its audit for fiscal 2011. We would expect ED to review any such situation based on the particular facts and circumstances, and there could be an adverse impact on the consolidated institution or ED s decision to approve the application.

ED rulemaking could materially and adversely affect our operations, business, results of operations, financial condition and cash flows.

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

These new regulations could have a significant impact on our business. Among the most significant regulatory changes that we have identified for our business are:

- the elimination of safe harbors that had allowed, under limited and prescribed circumstances, payment of certain types of compensation to employees (including higher level employees) and third parties involved in student recruiting, admissions or financial aid activities;
- imposition of extensive record-keeping and disclosure requirements regarding the employment of graduates, as part of the gainful employment regulations described above;
- defining a credit hour for purposes of determining program eligibility for Title IV student financial aid;
- establishing more stringent state approval requirements that may require or encourage states to modify existing state approval and licensing processes;
- defining academic attendance to specifically exclude logging into an online class without active participation and otherwise generally limiting the types of activities that qualify as academic attendance in an online environment;
- requiring an institution that offers distance learning programs to secure the approval of each state where it enrolls students to the extent any such state requires such approval and provide evidence of such approval to ED upon request; and
- changing the definition of substantial misrepresentation to include, among other things, erroneous statements, including erroneous statements made by certain third-party vendors under contract to an institution, which may increase institutional liability and subject institutions to sanctions for statements containing inadvertent errors, and expose institutions to costly third-party litigation.

These rules have required us to change certain of our business practices, incur costs of compliance and of developing and implementing changes in operations, and may affect student recruitment and enrollment, result in changes in or elimination of certain educational programs and have other significant or material effects on our business.

Table of Contents

Among other things, these rules will impact or have impacted our compensation programs for persons (including higher level employees) and entities involved in student recruitment, admissions and financial aid, including third-party lead generators and Internet marketing vendors, which may adversely affect:

- our ability to compensate our employees involved in recruitment, admissions and student financial aid based on relative merit,
- our recruitment and retention of such employees,
- the motivation and effectiveness of such employees,
- our ability to provide certain forms of compensation to management, impacting recruitment and retention,
- our compensation practices for third-party Internet marketing and lead-generation service providers,
- the quality of leads generated by these third-party service providers and increased cost for leads,
- our marketing costs and marketing strategies, by decreasing marketing efficiency to the extent we conduct direct marketing rather than utilize third-party lead aggregators, and through increasing costs of recruiting and enrolling prospective students, and
- our revenues, if we are unable to maintain or increase the rate of student enrollments.

We have terminated certain compensation payments to our affected employees and have implemented changes in contractual or other arrangements with third parties to change payment structures formerly allowed under ED rules.

Our schools offering distance learning are completing additional applications for licensures or confirming exemptions for their distance learning programs. At this time, the impact and potential costs of federal and state distance learning regulations on our schools is still uncertain but will increase our costs of regulatory compliance, will likely delay the introduction of new programs and as a result of these new regulations may have other material adverse effects on our operations, revenues, results of operations and cash flows.

The requirements for reporting gainful employment-related information relating to our programs to ED and to our students will substantially increase our administrative burdens, particularly during the implementation phase. This reporting and the other procedural changes in the new rules could impact student enrollment, persistence and retention in ways that we cannot now predict. For example, if our reported program information compares unfavorably with other reporting educational institutions, it could adversely impact demand for our programs. In addition, the ability of our U.S. schools or OPEIDs to continue to meet the 90-10 Rule and to therefore qualify to participate in Title IV Program funding, may be negatively impacted by changes we make to comply with final gainful employment regulations, by the expiration of temporary relief related to the classification of certain Stafford loan revenues, by changes in the allowable amounts of Pell Grants made annually to students, new regulations or interpretations by ED regarding the types of funding sources classified as non-Title IV Program funds, other ED regulations or interpretations affecting technical aspects of the calculation methodology under the Rule, or other factors that we cannot predict or control. Failure to meet the 90-10 Rule by our schools or OPEIDs could have a material adverse impact on our business, financial condition, results of operation, cash flows and value of our common stock.

In addition to the rules, ED routinely issues Dear Colleague Letters to provide sub-regulatory guidance on certain areas of final regulations. The guidance is provided to assist institutions with understanding the regulations in these areas, and does not make any changes to the regulations. ED has issued numerous Dear Colleague Letters to provide further information on other provisions of the program integrity regulations and created a website dedicated to gainful employment information found at http://ifap.ed.gov/GainfulEmploymentInfo/index.html.

Table of Contents

On September 27, 2011, ED published a Notice of Proposed Rulemaking (NPRM) to amend regulations and to streamline the application and approval process for new programs, as required by the gainful employment rules. The public comment period ended on November 14, 2011 and ED is reviewing and considering responses to the NPRM before publishing final regulations that would be effective by July 2013.

In April 2011, ED announced its intention to establish one or more negotiated rulemaking committees to propose additional new regulations under HEA. ED held three public hearings in May 2011, at which interested parties suggested issues that should be considered for action by the negotiating committees. In October 2011, ED announced that it would be establishing two new negotiated rulemaking committees: one to address student loan issues and the other to address issues related to teacher preparation and the TEACH grant program. In January 2012, each of the committees held its first working meeting. If the work of either or both of these committees results in proposals for specific new regulations, ED will have to finalize and publish the new regulations by November 1, 2012, in order for the new regulations to take effect July 1, 2013.

The new rules imposed by ED require a large number of reporting and operational changes. We believe we have substantially complied with the new reporting and disclosure requirements that were effective July 1, 2011, and we expect to be in substantial compliance with the remaining requirements by the respective effective dates. However, because of the scale and complexity of our educational programs, we may be unable to fully develop, test and implement all of the necessary modifications to our information management systems and administrative processes by the required dates. We may be subject to administrative or other sanctions if we are unable to comply with these reporting and disclosure requirements on a timely basis. In addition, these changes, individually or in combination, may impact our student enrollment, persistence and retention in ways that we cannot now predict.

We cannot predict with certainty the combined impact of the program integrity regulations on our operations, nor can we predict the effect of other legislative or regulatory changes by federal, state or other agencies regulating our education programs or other aspects of our operations, how any resulting regulations will be interpreted or whether we and our schools will be able to comply with these requirements in the future. Any such actions by other bodies that affect our programs and operations could have a material adverse effect on our student population, our business, financial condition, results of operations and cash flows.

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

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

Table of Contents

Due to their participation in Title IV Programs, our schools and universities are subject to periodic program reviews and audits by ED for the purpose of evaluating an institution s compliance with Title IV Program requirements, identifying any liabilities to ED or students caused by errors in compliance, and improving future institutional capabilities. As previously disclosed, ED conducted a program review of AIU in November 2009. On July 14, 2010, AIU received a copy of ED s Program Review Report, which is a preliminary report of ED s findings from its program review. The Program Review Report identified six findings, two of which were deemed to be systemic findings by ED s program review team. These two findings relate to AIU s policy for determining student attendance in online courses for purposes of determining such students enrollment status, withdrawal dates and associated timing respecting the return of unearned Title IV Program funds. Based on information available to us, we cannot determine a range of loss for these findings or assess whether an unfavorable outcome could have a material adverse effect on our business, results of operations, cash flows or financial position. The remaining findings were isolated and generally relate to processing errors. We believe the amounts involved in these four findings are immaterial. AIU submitted its response to ED s Program Review Report on November 29, 2010 and is awaiting ED s issuance of a Final Program Review Determination letter that will specify any required corrective action and amounts owed to ED, if any.

In addition, as previously disclosed, ED s Office of Inspector General audit services division commenced a compliance audit of CTU in June 2010, covering the period July 5, 2009 to May 16, 2010, to determine whether CTU had policies and procedures to ensure that CTU administered Title IV Program and other federal program funds in accordance with applicable federal law and regulation. On January 13, 2012, the OIG issued a draft report identifying three findings, two of potential material non-compliance. Specifically, documentation of attendance of students enrolled in online programs and calculation of returns of Title IV Program funds arising from student withdrawals without official notice to the institution. CTU is in the process of preparing a written response to the OIG, contesting these findings which is due on February 29, 2012. After CTU submits its response to the draft OIG report, the OIG report, along with CTU s response, will be forwarded to ED s Office of Federal Student Aid which will make an independent assessment of what further action, if any, is warranted. Based on information available to us, we cannot determine a range of loss for these findings or assess whether an unfavorable outcome could have a material adverse effect on our business, results of operations, cash flows or financial position.

In August 2011, the U.S. Department of Veterans Affairs (VA) conducted a compliance survey at the Colorado Springs campus of CTU. While the VA has not yet issued a report respecting its findings, at an exit conference held on August 9, 2011, the VA informed CTU that it had identified certain students for whom it believed CTU had incorrectly certified the monthly housing allowance (MHA) provided pursuant to the Post-9/11 Veterans Educational Assistance Act (Post-9/11 GI Bill). While CTU believes the position of the VA Regional Office is based on a difference in interpretation of applicable provisions of law, CTU is working with the VA to ensure that students entitled to benefits under the Post-9/11 GI Bill will not be adversely impacted or held responsible for any adjustments that are made respecting the MHA. Based on information currently available to us, we estimate potential reimbursements by CTU of approximately $5.0 million. Accordingly, we have accrued $5.0 million as an estimate for the reasonably possible settlement of this matter. At this time, the survey of the Colorado Springs campus is not concluded. The VA is also conducting compliance survey reviews at other CTU ground campuses, including Denver, Kansas City and Sioux Falls, and is expected to conduct a compliance survey review of CTU Online starting in March 2012. The VA has not conducted exit conferences or issued reports on these additional compliance surveys.

ED recently moved all of our institutions from what is called the Advance Method of Payment to what is called Heightened Cash Monitoring 1 status. Although our existing practices substantially conform to the requirements of this more restrictive method of drawing down students Title IV Program funds, ED may find violations of the HEA or ED regulations that would cause ED to transfer our schools to Heightened Cash Monitoring 2 which would substantially delay our receipt of Title IV Program funds and impose additional documentation and waiting period requirements.

If our schools fail to meet the substantial regulatory requirements they are subject to, they could be required to refund amounts received under Title IV Programs or state financial aid programs or subject to monetary damages, sanctions or significant limitations on our operations which could significantly reduce the enrollments and revenues of our schools eligible to participate in Title IV programs and materially and adversely affect our business, financial condition, results of operations and cash flows. We may be required to expend significant resources to defend against those claims

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

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

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

The October 29, 2010 regulations also require that an institution offering distance learning or online programs secure the approval of those states which require such approval and provide evidence of such approval to ED upon request. On July 12, 2011, the U.S. District Court for the District of Columbia struck down those portions of the October 29, 2010 regulations requiring proof of state approval for online education programs. That holding has been appealed by ED. If the lower court ruling is upheld, ED may elect to re-introduce this rule. These regulations, among other things, may require our schools offering distance education to obtain state approvals or registrations or exemptions from such requirements from additional states which currently or in the future may elect to regulate institutions that enroll the relevant states residents in online programs and courses. State regulatory requirements for online education are inconsistent between states, change frequently and, in some instances, are not clear, and the interpretation of such regulations is generally left to the discretion of state employees or agents. In response to the new ED rules, states that do not presently regulate delivery of online courses and programs have enacted legislation or issue regulations or interpret existing regulations to specifically address online educational programs, such as those offered by our schools, may enact or issue further regulations impacting the availability of exemptions from licensure in certain states, or otherwise affect our schools operations. Our schools offering distance learning have submitted or expect to submit additional applications for licensures or exemptions for their distance learning programs. Many other educational institutions have or will be submitting similar applications and we cannot anticipate how quickly the state agencies, some of which we believe are taxed by resource shortages, will be able to respond to the applications. While ED s final regulations contain provisions for obtaining annual waivers that may allow schools to operate without specific state regulatory approvals through July 1, 2013, if one of our schools offering distance learning does not have the appropriate state approvals for its online programs or is not able to customize its policies, procedures or programs to meet select state regulatory requirements or is unable to obtain a waiver, it may not be able to continue to offer distance education to students in those states unless it obtains the waiver or additional approvals or exemptions or changes its policies, procedures or programs for those students, which could have a material impact on our business, financial condition, results of operations, cash flows and the value of our common stock.

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

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

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

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

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

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

In the U.S., accrediting agencies periodically review the academic quality of an institution s instructional programs and its administrative and financial operations to ensure that the institution has the resources to perform its educational mission. ED relies on accrediting agencies to assess whether an institution s educational programs qualify the school to participate in Title IV Programs. Furthermore, many states and professional associations require professional programs to be accredited, and require individuals who must pass professional license exams

Table of Contents

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

On November 14, 2011, the Company received a letter from ACICS directing the Company, on behalf of 49 of its ACICS-accredited institutions in the Health Education and Art & Design segments, to show-cause at the ACICS December 2011 meeting as to why the Institutions current grants of accreditation should not be withdrawn by way of suspension. The show-cause directive relates to the adequacy of the administrative practices and controls relative to the Company s calculation of placement rates. We appeared before ACICS on December 7, 2011 and reviewed, among other things, the procedures we have implemented to ensure the accurate determination and reporting of placement rates. On December 13, 2011, ACICS advised us that it decided to defer further action on its show-cause directive until its next regularly scheduled meeting in April 2012. The directive now applies to all 71 of our schools accredited by ACICS, including the institutions in our Culinary Arts segment. ACICS acknowledged the efforts we had implemented to address concerns related to the verification of placement data, but has sought additional information regarding prior data and confirmation that the efforts will continue for a sustained period of time and be implemented at all campuses accredited by the agency. ACICS has requested that we provide certain additional information to ACICS in advance of the April 2012 meeting. While the show-cause directive is in effect, ACICS will not accept any applications for new programs or the initiation of additional locations or campus additions.

As previously disclosed, the Company s Board of Directors directed independent legal counsel, Dewey & LeBoeuf LLP (Dewey), to conduct an investigation into the determination of placement rates at its Health Education segment schools. Subsequently, the Board of Directors directed Dewey to review placement rate determination practices at all of the Company s domestic schools. Dewey has completed its investigation and review and has reported the results of its investigation and review to the Board.

Dewey s review of the Company s domestic schools involved primarily an assessment of internal placement data that had not yet been made public or made available to students based on required reporting deadlines. In its review of the Company s remaining domestic schools, Dewey did not identify evidence of the types of improper placement determination practices that were previously identified at certain of the Company s Health Education segment schools. Dewey identified some errors in internal data at certain of the schools as well as certain unsupported placements, and the Company revised the data in accordance with these findings. The Company has reported the results of Dewey s assessment of these schools to relevant regulatory and accrediting bodies, as appropriate. Our Health Education and Art & Design segment schools reported 2010-2011 placement rates to ACICS, taking into account Dewey s assessment, in accordance with their annual reporting schedule.

The ACICS placement rate standard for the 2010-2011 cohort was 65%. ACICS has announced a new tiered standard for the 2011-2012 cohort that has different levels of required remediation for institutional placement rates below 64%, 58% and 47%, respectively. It will also begin evaluating placement rates at the program level and applying associated remedial actions. Placement rates below these minimum standards subject an institution to increased accreditation oversight, which may include increased reporting requirements, a requirement that the institution submit a corrective action plan, attend workshops, undergo an on-site evaluation or restrictions on the addition of new locations or programs. ACICS may also initiate accreditation proceedings such as a show-cause directive (like the one pending), an action to defer or deny action related to an institution s application for a new grant of accreditation or an action to suspend an institution s accreditation if it fails to meet this standard. Based on their recently reported 2010-2011 placement rates, 13 of our 49 ACICS-accredited Health Education and Art & Design segment schools met ACICS 65% minimum placement rate standard for the 2010-2011 reporting period using the Company s internal definitions. ACICS or the Company could subsequently revise the data and determine that additional schools do not meet the minimum placement rate standard as a result of the continued review of our schools 2010-2011 placement information. Other regulators have inquired about the basis and status of the ACICS show-cause directive and we continue to respond to all requests for information.

In June 2011, Briarcliffe College s accrediting agency, Middle States Commission on Higher Education (Middle States), took action to continue the school s accreditation for a period not to exceed one year. Briarcliffe has advised Middle States of the NYAG investigation and our investigation into our determination of reported student placement rates. A further renewal of Briarcliffe s accreditation by Middle States is subject to Briarcliffe s submission of a monitoring report to Middle States by the earlier of March 1, 2012 or 30 days after completion of any report by the NYAG of its investigation. Middle States has also requested that Briarcliffe provide it with a progress report by April 1, 2013 documenting evidence of the use of multiple measures of the assessment of student learning at the institutional, program, and course levels and the use of appropriate assessments of the attainment of learning goals at the institutional, program and course levels. As noted above, the NYAG investigation remains open and Briarcliffe College is preparing the requested monitoring report due March 1, 2012.

On November 28, 2011, Brown College Mendota Heights received a show-cause directive from its primary institutional accreditor, ACCSC, related to student achievement. Brown College submitted its response to the show-cause directive on February 6, 2012 that will be considered at the ACCSC commission meeting in May, 2012.

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

Our largest institutions are institutionally accredited by The Higher Learning Commission (HLC) of the North Central Association of Colleges and Schools, one of the six regional accrediting agencies recognized by ED. Almost all of our nationally accredited institutions are institutionally accredited by the Accrediting Council for Independent Colleges and Schools (ACICS) and several are jointly accredited by ACCSC and ACICS. Only the Le Cordon Bleu Institute of Culinary Arts campus in Pittsburgh, Pennsylvania is accredited only by ACCSC and is currently in the process of teaching out its programs. Accreditation by an accrediting agency recognized by the U. S. Department of Education is required in order for an institution to become and remain eligible to participate in Title IV programs and HLC, ACICS and ACCSC all satisfy this requirement. In January of 2009, after receiving an Alert Memorandum from the Office of Inspector General, Department staff conducted a review of HLC and developed in partnership with the agency a corrective action plan to address concerns raised by the Inspector General, including concerns about the agency s review of credit hours among its member institutions. As part of the corrective action plan, the agency was required to file interim reports with the National Advisory Committee on Institutional Quality and Improvement, which they did at the December 2010 and December 2011 meetings of the Advisory Board. In addition, the agency is in the process of adopting new standards for accreditation that address, among other things, the requirements of the new Program Integrity regulations regarding credit hour calculations. As evidence of continuing scrutiny of its recognized accreditors, at the June 2011 meeting of NACIQI, ACICS was one of four out of seven agencies that had applied for a five-year recognition, but instead received only a one year extension of their recognition during which time the agency must come into full compliance with all of the Department s accreditation standards.

Our participation in Title IV Programs is dependent on ED continuing to recognize the accrediting agencies that accredit our colleges and universities. The standards and practices of these agencies have recently become a focus of attention by ED. If ED ceased to recognize a particular accrediting agency for any reason, our schools that are accredited by that accrediting agency would not be eligible to participate in Title IV Programs beginning 18 months after the date such recognition ceased, unless that accrediting agency was again recognized or our

Table of Contents

schools that are accredited by that accrediting agency were accredited by another accrediting body recognized by ED. If our schools that are accredited by that accrediting agency became ineligible to participate in Title IV Programs, our business, financial condition, results of operations and cash flows would be materially adversely affected. Furthermore, the recent focus by the Office of Inspector General and ED on accrediting bodies may make the accreditation review process more challenging for all of our schools when they undergo their normal accreditation review processes in the future or may lead to ED ceasing to recognize certain accrediting bodies. If this occurred, our schools may have to incur additional costs and/or curtail or modify certain program offerings in order to maintain their accreditation, or become accredited by another accrediting body recognized by ED, which could increase our schools operational costs, reduce their enrollments and materially adversely affect our business and results of operations.

We, and our business model, are subject to risks relating to enrollment of students. Given recent changes in the regulations affecting our operations, the U.S. economy, and other factors, there is a possibility of continued declines in our student population, which could materially adversely affect our business and revenues.

A protracted economic slowdown and rising unemployment could harm our business, while an improving economy may lead to prospective students choosing to work rather than to pursue postsecondary education at our schools. For example, a protracted economic slowdown could increase unemployment and diminish job prospects generally, and diminished job prospects and heightened financial worries could affect the willingness of students to incur loans to pay for postsecondary education and to pursue postsecondary education in general. Conversely, an improving economy and improving job prospects may lead prospective students to choose to work rather than to pursue postsecondary education. As a result, our enrollments could suffer.

As defined above, the new incentive compensation and misrepresentation rules may adversely affect our student recruiting and marketing efforts. Our business model has depended on student recruitment and retention services by our admissions counselors and our ability to attract and retain students at our schools through marketing, including use of third-party Internet lead generators that provide large numbers of potential student contacts. Our admissions representatives are responsible for identifying individuals interested in enrolling in our campuses. Admissions representatives serve as prospective students primary contacts, providing information to help them make informed enrollment decisions and assisting students with completing the enrollment process. ED s new incentive compensation rules eliminate safe harbors that previously allowed payment of certain compensation to our admissions advisors, financial aid advisors and certain third parties. We have changed the pay practices for these employees and contractual or other pay practices for third parties engaged in these efforts on our behalf, although there remains uncertainty under the new regulations as to what constitutes permissible pay practices. These changes, any new regulatory interpretation or guidance regarding these regulations, or any new legislation or rules impacting our recruiting practices, may result in employee retention issues, changes in our marketing practices that would lead to fewer prospective students, increased operating and marketing costs to identify prospective students, decreased enrollments or other impacts leading to changes in our business model, or other events that could have a material adverse impact on our business, financial condition, results of operations and cash flows.

The recent recession in the U.S. economy and congressional enactment of HCERA in March 2010 impacted students ability to finance their postsecondary educations, including limiting access to financial aid from sources other than Title IV Program funds. The recent recession caused many lenders, including lenders that previously provided Title IV Program loans to our students, to cease providing Title IV Program loans to students. Because HCERA eliminated fees paid to private banks to act as intermediaries in providing loans to college students, eliminated the FFEL Program, and required schools to transition to the Federal Direct Loan program by July 1, 2010, private lenders have exited the student loan market. As part of the Ensuring Continued Access to Student Loans Act of 2008 (ECASLA) private lenders providing federal loans under the FFEL Program were afforded the ability to sell (or PUT) loans to ED as a means to ensure lender liquidity and students continued access to federal loans. These PUT loans would ultimately be transferred for servicing by ED preferred student loan

Table of Contents

servicers. Initial review of reporting provided by ED related to PUT loan repayment performance has demonstrated a combination of record keeping errors and an increase in default rates relative to FFEL serviced loans during the same period. In addition to PUT loans serviced by ED s preferred servicers, ED is now responsible for originating and servicing all new federal student loans through the Federal Direct Loan program. Given early indications of servicing performance related to Direct Loans, student repayment risk may increase as a result of the transition causing an impact to our institutions cohort default rates which in turn could affect our institutions ability to maintain eligibility for Title IV Programs and could have a material adverse impact on our business, financial condition, results of operations and cash flows.

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

We had previously provided extended payment plans to certain students to help ensure that they could complete their educational programs. We have discontinued providing extended payment plans to new students. As of December 31, 2011, the amount of student receivables under student extended payment plans, net of allowance for doubtful accounts and net of deferred tuition revenue, was $7.3 million.

The repayment risk associated with these extended payment plans has been higher than the risk associated with non-extended payment plan student receivables as evidenced by the historical repayment practices. Factors that may contribute to this higher risk of repayment include: the repayment period, which is typically up to ten years, the credit history of the student that is offered an extended payment plan as well as the overall economic environment. We are providing an allowance for doubtful accounts as student receivables related to these plans are recorded. The allowance rate being applied is approximately 75%, which is based upon historical repayment practices.

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

Risks Related to Our Business

The loss of our key personnel could harm us.

Our future success depends largely on the skills, efforts and motivation of our executive officers and other key personnel, as well as on our ability to attract and retain qualified managers and our schools ability to attract and retain qualified faculty members and administrators. We face competition in retaining and hiring executives and key personnel who possess the skill sets and experiences that we seek. Our failure to fill openings for several officer positions or our loss of key personnel could slow implementation of key initiatives, lead to changes in or create uncertainty about our business strategies or otherwise impact management s attention to operations. In addition, key personnel may leave us and subsequently compete against us. The loss of the services of any of our key personnel, or our failure to attract and retain other qualified and experienced personnel on acceptable terms could adversely affect our results of operations or financial condition.

Table of Contents

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

A significant number of states in which our schools operate face budget constraints that may reduce state appropriations in a number of areas including state student financial aid, but we cannot predict the amount or timing of any such reductions. State grant programs generally benefit our institution s compliance with the 90-10 Rule. If state funding for our students decreases, our institutions compliance with the 90-10 Rule will be adversely affected, which could adversely impact our institutions eligibility for the Title IV Program. If our students are unable to secure alternative sources of funding for their education, our student population could be adversely affected, which could have a material adverse effect on our results of operations, financial condition, and cash flows. Increased state or federal support for public institutions and community colleges, resulting in increased competition for students, also could have a material adverse effect on our results of operations, financial condition and cash flows.

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

We and certain of our current and former directors and executive officers have been named as defendants in various lawsuits, investigations and claims covering a range of matters, including, but not limited to, violations of the federal securities laws and claims made by current and former students and employees of our schools. These claims have included *qui tam* actions filed in federal court by individual plaintiffs on behalf of themselves and the federal government alleging that we submitted false claims or statements to ED in violation of the False Claims Act. *Qui tam* actions are filed under seal, and remain under seal until the government decides whether it will intervene in the case. If the government elects to intervene in an action, it assumes primary control of that matter; if the government elects not to intervene; individual plaintiffs may continue the litigation at their own expense on behalf of the government. See Note 12 Commitments and Contingencies of the notes to our consolidated financial statements for additional discussion of these matters.

We and our schools also are subject to and have pending audits, compliance reviews, inquiries, investigations, claims of non-compliance and litigation by ED, federal and state regulatory agencies, accrediting agencies, state attorney general offices, present and former students and employees, and others that may allege violations of statutes, regulations, accreditation standards, consumer protection and other legal and regulatory requirements applicable to us or our schools. For example, we have received subpoenas from the Attorneys General of Florida and New York and a civil investigative demand from the Illinois Attorney General relating to potential non-compliance with applicable state laws and regulations by certain of our schools. If the results of any such audits, reviews, investigations, claims, or actions are unfavorable to us, we may be required to pay monetary damages or be subject to fines, operational limitations, loss of federal funding, injunctions, additional oversight and reporting, or other civil or criminal penalties. From time to time, we may have such matters pending against us respecting one or more of our schools, and as such, they would be discussed in Note 12 Commitments and Contingencies to our consolidated financial statements.

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

We are subject to a variety of other claims and litigation that arise from time to time alleging non-compliance with or violations of state or federal regulatory matters including, but not limited to, claims involving students, graduates and employees. In the event the extensive changes in the overall federal and state regulatory construct results in additional statutory or regulatory bases for these types of matters, or other events result in more of such claims or unfavorable outcomes to such claims, there exists the possibility of a material adverse impact on our business, reputation, financial position, cash flows and results of operations for the periods in which the effects of any such matter or matters becomes probable and reasonably estimable.

Congressional hearings and the continuing state attorneys general investigations affecting proprietary schools may spur plaintiffs law firms or others to initiate additional litigation against us and other proprietary education providers.

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

If we are unable to establish new schools and new branch campuses of our existing schools, or to offer new educational programs, or fail to effectively operate new schools, branches and programs, our ability to grow may be slowed and our profitability may be adversely affected.

As part of our growth strategy, we have opened new schools, new branch campuses or locations of our existing schools throughout the U.S. and offered new educational programs. These activities require us to invest in management and new personnel, make capital expenditures, incur marketing and advertising expenses, implement process and compliance training and procedures and devote resources that are different from those required to operate our existing schools. We may be unable to identify or acquire suitable expansion opportunities, or to successfully integrate a new school or branch campus. Any failure by us to effectively identify, establish and manage the operations of a new school or branch campus, or lapses in oversight of or maintenance of regulatory compliance or processes, could impact our ability to grow, could make any newly established school or branch campus more costly to operate than we had planned, could require additional investments in training of management and other personnel, or could lead to compliance issues, and could have an adverse effect on our results of operations, profitability, growth prospects and ability to compete and operate in our competitive markets. Additionally, ACICS has placed a restriction on any new programs or campuses at our ACICS accredited institutions while we are subject to the show-cause directive.

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

We are facing a period of extremely heightened regulatory scrutiny and, in the case of our ACICS accredited institutions, a complete restriction on new program and campus approvals. Additionally, we believe regulatory agencies are generally seeing significant increases in the volume of requests as a result of the industry adjusting to the significant volume of new regulations. Regulatory capacity constraints have resulted in delays to various approvals our institutions are requesting. To open a new school or branch campus, or to establish a new educational program, we are required to obtain the appropriate approvals from ED and applicable state and accrediting regulatory agencies, which may be conditioned, delayed or denied in a manner that could significantly affect our growth plans. Approval by these regulatory agencies may be negatively impacted due to regulatory inquiries or reviews and any adverse publicity relating to such matters. Also, any adverse action taken by ED regarding its recognition of any accrediting agency that accredits our schools or programs could adversely impact our ability to open a new school or branch campus or establish new educational programs. In addition, to be eligible to participate in Title IV Programs, ED and applicable state and accrediting bodies must certify a new school or branch campus.

Table of Contents

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

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

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

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

If changes in the regulatory environment or unavailability of Title IV Program funds to certain programs cause us to terminate programs, or lead to significant decreases in enrollments, we will incur costs and expenses associated with closing facilities or other exit activities.

We may face excess capacity if student enrollments continue to decrease or if we decide to terminate offering of programs. We must balance current student populations and projected changes in student population with appropriate levels of investment in real estate and our online platforms in order to effectively manage capacity. Conversely, any increases in student enrollments may result in capacity constraints if our schools, particularly on-ground schools, are unable to adequately service the number of students enrolled or seeking to enroll in our programs.

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

We operate schools outside of the U.S. and are subject to risks inherent in having non-domestic operations, including foreign statutes and regulations for employees, students and postsecondary institutions, currency exchange rate fluctuations, limits on repatriation of profits, U.S.-foreign tax treaties and taxing authority, possible economic or political instability in those countries and risks associated with the Foreign Corrupt Practices Act, similar U.S. laws applicable to our operations in foreign markets, and the United Kingdom Bribery Act, effective July 1, 2011, holds American corporations responsible not only for violations committed by their United Kingdom subsidiaries but also for those subsidiaries actions in other countries.

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

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

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

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

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

Our future financial condition and results of operations could be materially adversely affected if we are required to write down the carrying value of non-financial assets and non-financial liabilities, including long-lived assets, goodwill and intangible assets, such as our trade names.

In accordance with U.S. GAAP, we review our non-financial assets and non-financial liabilities, including goodwill and indefinite-lived intangible assets, such as our trade names, for impairment on at least an annual basis through the application of fair value-based measurements. We determined the fair value of our reporting units using a combination of an income approach, based on discounted cash flow, and a market-based approach. To the extent the fair value of a reporting unit is less than its carrying amount, we may be required to record an impairment charge in the consolidated statements of operations. We determined the fair value of our trade names using a relief from royalty method which is based on the assumption that, in lieu of ownership of an intangible asset, a company would be willing to pay a royalty in order to enjoy the benefits of the asset. To the extent the fair value of the trade name is less than its carrying amount, we record an impairment charge in the consolidated statements of operations. Our estimates of fair value for these are based primarily on projected future results and expected cash flows consistent with our plans to manage the underlying businesses. We recorded goodwill and asset impairment charges of $191.5 million during fiscal 2011. See Note 10 Goodwill and Other Intangible Assets of the notes to our consolidated financial statements for further discussion. To the extent known, we incorporated the risks associated with regulatory compliance into the discount rates used to estimate the fair value of each of our reporting units at December 31, 2011. However, should we need to take additional actions not currently foreseen to comply with current and future regulations, the assumptions used to calculate the fair value of our reporting units, including the estimate of future cash flows, revenue growth, and discount rates, could be negatively impacted and could result in an impairment of goodwill or other intangible assets which could materially adversely affect our financial condition and results of operations.

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

A March 2011 NCES report projects that between 2008 and 2019 enrollments in degree-granting postsecondary institutions will increase 17% to 22.4 million students. This projected 11-year growth rate is lower than the 34% increase NCES reported for the 14-year period 1994-2008 of 14.3 million in 1994 to 19.1 million in 2008. Such a decline in the overall growth rate in the postsecondary education sector would result in increased competition for students for our programs and could impact our ability to attract and retain students and affect our ability to increase our enrollments. In addition, the ability of our foreign students to obtain visas for our U.S. and our European schools is important to student recruitment. If we cannot attract new students, or develop new curricula to attract prospective students who seek degrees in fields other than our core disciplines, or accommodate changed immigration or visa rules, we may be unable to maintain and increase our student population or achieve our growth strategies, which could have a material adverse effect on our revenues, results of operations, financial condition and market price of our common stock.

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

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

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

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

For our online and on-ground campuses, the performance and reliability of program infrastructure is critical to their operations, reputation and ability to attract and retain students. Any computer system error or failure, significant increase in traffic on our computer networks, or any significant failure or unavailability of our computer networks, including but not limited to those as a result of natural disasters and network and telecommunications failures could materially disrupt our delivery of these programs.

Our computer networks may also be vulnerable to unauthorized access, computer hackers, computer viruses and other security threats. A user who circumvents security measures could misappropriate proprietary information or cause interruptions or malfunctions in our operations. Due to the sensitive nature of the information contained on our networks hackers may target our networks. We may be required to expend significant resources to protect against the threat of these security breaches or to alleviate problems caused by these breaches. Although we continually monitor the security of our technology infrastructure, we cannot assure that these efforts will protect our computer networks against security breaches. Any interruption to our schools computer systems or operations could have a material adverse effect on our student population, our business, financial condition, results of operations and cash flows.

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

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

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

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

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

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

Our credit agreement limits our ability to take various actions and requires that we satisfy specified financial and non-financial covenants.

Our credit agreement limits our ability to take various actions, including paying dividends and disposing of assets, and may restrict us from taking actions that management believes would be desirable and in the best interests of us and our stockholders. Our credit agreement provides that our failure to comply with regulations issued by ED or other governmental authorities or our failure to satisfy specified financial and non-financial covenants could result in an event of default under the credit agreement. An event of default would allow the lenders to pursue various remedies, including accelerating the repayment of any indebtedness outstanding, any of which could have a material adverse effect on our operations and financial condition.

Our credit agreement expires on October 31, 2012 and there is no assurance it will be extended or replaced.

Our credit agreement expires on October 31, 2012. If we are unable to renew the credit agreement or obtain replacement financing on satisfactory terms, our ability to fund our operations and capital expenditures could be materially negatively impacted, which could have a material adverse effect on our operations and financial condition.

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

Our efforts to attract and enroll students result in us collecting, using and keeping substantial amounts of personal information regarding applicants, our students, faculty, their families and alumni, including social

Table of Contents

security numbers, financial data or health data. We also maintain personal information about our employees in the ordinary course of our activities. Our services, the services of many of our health plan and benefit plan vendors, and other information can be accessed globally through the Internet. We rely extensively on our network of interconnected applications and databases for day to day operations as well as financial reporting and the processing of financial transactions. Our computer networks and those of our vendors that manage confidential information for us may be vulnerable to unauthorized access, theft or misuse, hackers, computer viruses, or third parties in connection with hardware and software upgrades and changes. Such unauthorized access, misuse, theft or hacks could evade our intrusion detection and prevention precautions without alerting us to the breach or loss for some period of time or may never be detected. We have experienced malware and virus attacks on our systems which went undetected by our virus detection and prevention software. Regular patching of our computer systems and frequent updates to our virus detection and prevention software with the latest virus and malware signatures may not catch newly introduced malware and viruses or zero-day viruses, prior to their infecting our systems and potentially disrupting our data integrity, taking sensitive information or affecting financial transactions. Because our services can be accessed globally via the Internet, we may be subject to privacy laws in countries outside the U.S. from which students access our services, which laws may constrain the way we market and provide our services. While we utilize security and business controls to limit access to and use of personal information, any breach of student or employee privacy or errors in storing, using or transmitting personal information could violate privacy laws and regulations resulting in fines or other penalties. A breach, theft or loss of personal information held by us or our vendors, or a violation of the laws and regulations governing privacy could have a material adverse effect on our reputation or result in additional regulation, compliance costs or investments in additional security systems to protect our computer networks causing a material adverse effect on our business, financial condition, results of operations and cash flows.

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

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

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

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

The Americans with Disabilities Act of 1990, or ADA, requires all public accommodations to meet federal requirements for access and use by disabled individuals. Other federal, state, and local laws and regulations also may impose similar or additional accessibility requirements. For example, the Fair Housing Amendments Act of 1988, or FHAA, requires apartment properties first occupied after March 13, 1991, to be accessible to handicapped persons. Typically, our real estate leases require us to pay any costs necessary to comply with all

Table of Contents

laws, including these accessibility laws, for our premises, which may include parking areas, restaurants at our culinary schools, dormitory facilities and similar facilities in addition to classroom and office space. In opening new schools or locations and acquiring existing schools, we often must build out the premises to satisfy our classroom needs and must incur the costs associated with accessibility compliance in those construction activities. If any of our premises are not compliant with the ADA or FHAA, we could face fines, litigation by private litigants, and orders to correct any non-complying features.

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 has and may fluctuate substantially as a result of a number of factors, some of which are not in our control. These factors include:

- loss of key personnel;
- the initiation, pendency or outcome of litigation, accreditation reviews, regulatory reviews and investigations, including the pending state attorneys general investigations in which we are involved, and any related adverse publicity;
- failure of certain of our schools in our Health Education and Art & Design segments to meet minimum placement rates for 2010-2011 established by our schools accreditors;
- failure satisfactorily to resolve the show-cause proceeding of our ACICS-accredited schools that was initiated in November 2011;
- failure of certain of our institutions to maintain compliance under the 90-10 Rule;
- the outcomes and impacts on our business of ED s rulemakings, and other changes in the legal or regulatory environment in which we operate;
- changes in the student lending and credit markets;
- our ability to meet or exceed expectations of analysts or investors;
- quarterly variations in our operating results;
- general conditions in the postsecondary education field, including changes in ED, state laws and regulations and accreditation standards, or availability of student financing;
- changes in our earnings estimates by analysts;

- future impairment of goodwill or other intangible assets;

- price and volume fluctuations in the overall stock market, which have particularly affected the market prices of many companies that provide postsecondary education in recent periods; and

- general economic conditions.

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

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

Table of Contents

ITEM 2. PROPERTIES

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

Almost all of our campus locations are leased. As of December 31, 2011, we leased approximately 5.5 million square feet under lease agreements related to our continuing operations that have remaining terms ranging from less than one year to 17 years. As of December 31, 2011, we leased approximately 0.7 million square feet under lease agreements related to our discontinued operations that have remaining terms ranging from one to eight years. As of December 31, 2011, we owned approximately 0.1 million square feet of real property at the following campuses:

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

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

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

ITEM 3. LEGAL PROCEEDINGS

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

Table of Contents

PART II

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

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

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

	Price Range of Common Stock	
	High	**Low**
2011		
First quarter	$ 24.80	$ 18.40
Second quarter	27.60	19.56
Third quarter	25.26	12.95
Fourth quarter	17.80	6.22
	High	**Low**
2010		
First quarter	$ 33.07	$ 18.21
Second quarter	35.88	22.63
Third quarter	27.93	17.00
Fourth quarter	22.07	16.36

The closing price of our common stock as reported on the NASDAQ on February 15, 2012 was $11.21 per share. As of February 15, 2012, there were 469 holders of record of our common stock.

We have never paid cash dividends on our common stock and have no plan to do so in the foreseeable future. The declaration and payment of dividends on our common stock are subject to the discretion of our Board of Directors. The decision of our Board of Directors to pay future dividends will depend on general business conditions, the effect of a dividend payment on our financial condition, and other factors the Board of Directors may consider relevant. The current policy of our Board of Directors is to reinvest earnings in our operations to promote future growth and, from time to time, to execute repurchases of shares of our common stock under the stock repurchase program discussed below. The repurchase of shares of our common stock reduces the amount of cash available to pay cash dividends to our common stockholders. Our ability to pay cash dividends on our common stock is also limited under the terms of our existing credit agreement. As of December 31, 2011, we are in compliance with the covenants of our U.S. Credit Agreement.

During 2011, we repurchased 8.1 million shares of our common stock for approximately $150.4 million at an average price of $18.67 per share. Under the Company s previously authorized stock repurchase program, stock repurchases may be made on the open market or in privately negotiated transactions from time to time, depending on factors including market conditions and corporate and regulatory requirements. The stock repurchase program does not have an expiration date and may be suspended or discontinued at any time. On November 14, 2011, the Board of Directors authorized an additional $100.0 million to repurchase outstanding shares of its common stock under the Company s stock repurchase program. Including this additional authorized repurchase amount, as of December 31, 2011, approximately $239.8 million was available under the stock repurchase program.

On November 21, 2011, we entered into a stock repurchase plan established in accordance with Rule 10b5-1 of the Securities Exchange Act of 1934, as amended (the 1934 Act), in connection with our previously

Table of Contents

authorized stock repurchase program. A Rule 10b5-1 plan allows a company to repurchase its shares at times when it otherwise might be unable to do so under the 1934 Act s insider trading rules. This stock repurchase plan facilitated purchases of our common stock under our previously authorized stock repurchase program. Purchases of common stock under this plan were subject to specified parameters and certain price and volume restraints as established in the plan. During January 2012, our designated broker repurchased on our behalf an additional 6.1 million shares of our common stock for $56.4 million at an average price of $9.29 per share under this plan. As a result, approximately $183.3 million was available under our previously authorized stock repurchase program to repurchase outstanding shares of our common stock as of January 31, 2012.

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

Issuer Purchases of Equity Securities

Period	**Total Number of Shares Purchased**	**Average Price Paid per Share**	**Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs**	**Maximum Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs**
December 31, 2010				$ 290,454,703
January 1, 2011 January 31, 2011	3,721,903	$ 21.47	3,721,903	210,454,862
February 1, 2011 February 28, 2011	140,000	23.67	140,000	207,138,801
March 1, 2011 March 31, 2011	282,800	23.61	282,800	200,456,784
April 1, 2011 April 30, 2011				200,456,784
May 1, 2011 May 31, 2011	929,258	21.74	929,258	180,239,073
June 1, 2011 June 30, 2011	846,089	23.36	846,089	160,456,824
July 1, 2011 July 31, 2011	400	22.00	400	160,448,016
August 1, 2011 August 31, 2011	326,700	21.87	326,700	153,296,682
September 1, 2011 September 30, 2011				