

CAREER EDUCATION CORP
Form 10-K
February 28, 2008

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2007

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)

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Delaware
(State of or other jurisdiction of
incorporation or organization)
2895 Greenspoint Parkway, Suite 600

36-3932190
(I.R.S. Employer
Identification No.)

Hoffman Estates, Illinois
(Address of principal executive offices)
60169
(zip code)
Registrant's telephone number, including area code: (847) 781-3600

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

Common Stock, \$0.01 par value

(Title of Class)

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

Indicate by check mark whether the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act of 1933. Yes 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

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 No

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

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

Large accelerated filer Accelerated filer Non-accelerated filer

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

The aggregate market value of the Registrant's voting common stock held by non-affiliates of the Registrant, based upon the \$33.77 per share closing sale price of the Registrant's common stock on June 29, 2007 (the last business day of the Registrant's most recently completed second quarter), was approximately \$2,463,813,171. For purposes of this calculation, the Registrant's directors and executive officers and holders of 10% or more of the Registrant's outstanding shares of voting common stock have been assumed to be affiliates, with such affiliates holding an aggregate of 19,868,573 shares of the Registrant's voting common stock on June 29, 2007.

Number of shares of Registrant's common stock, par value \$0.01, outstanding as of February 26, 2008, was 90,444,380.

Portions of the Registrant's Notice of Annual Meeting and Proxy Statement for the Registrant's 2008 Annual Meeting of Stockholders are incorporated by reference into Part III of this Report.

CAREER EDUCATION CORPORATION

FORM 10-K

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PART I

Cautionary Note Regarding Forward-Looking Statements

This Annual Report on Form 10-K contains forward-looking statements, as defined in Section 21E of the Securities Exchange Act of 1934, as amended, that reflect our current expectations regarding our future growth, results of operations, cash flows, performance and business prospects, and opportunities, as well as assumptions made by, and information currently available to, our management. We have tried to identify forward-looking statements by using words such as anticipate, believe, plan, expect, intend, will, and similar expressions, but the 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 including its campus locations. The term campus refers to an individual main or branch campus operated by one of our schools.

BUSINESS OVERVIEW

We are a dynamic educational services company committed to quality, career-focused learning and led by passionate professionals who inspire individual worth and lifelong achievement. With approximately 89,500 students, we are one of the world's leading on-ground providers of private, for-profit, postsecondary education and have a substantial presence in online education. Our schools and universities prepare students for professionally and personally rewarding careers through the operation of more than 75 on-ground campuses located throughout the United States, France, Canada, Italy and the United Kingdom and three fully-online academic programs.

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

Culinary Arts: Programs include culinary arts, hotel and restaurant management, and baking and pastry arts.

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

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

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

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

We evaluate our business based on our operating segments, which we define as our operating divisions. Each of our school and university operating divisions represents a group of for-profit, postsecondary schools that offer a variety of degree and non-degree academic programs and are differentiated based on a variety of criteria including, but not limited to, brand name, academic offerings, and geographic location. As of December 31, 2007, we had six school reportable segments, consisting of Academy, Colleges, Culinary Arts, Health Education, International and University.

Academy includes our International Academy of Design and Technology (IADT) campuses that collectively offer academic programs primarily in the career-oriented discipline of visual communications and design technologies in an online, classroom or laboratory setting.

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

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

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

International includes our INSEEC Group schools and, effective January 25, 2007, Istituto Marangoni schools located in France, Italy and the United Kingdom, which collectively offer academic programs in the career-oriented disciplines of business studies, fashion and design, and visual communication and technologies in a classroom or laboratory setting.

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

See Note 18 Segment Reporting and Note 20 Subsequent Events of the notes to our consolidated financial statements for further discussion.

INDUSTRY BACKGROUND AND COMPETITION

The postsecondary education industry includes approximately 6,800 institutions that participate in federally-sponsored financial aid programs authorized by Title IV of the Higher Education Act of 1965, as amended (HEA), which we refer to as Title IV Programs. According to the National Center for Education Statistics (NCES), during the 2005-2006 school year, postsecondary education enrolled approximately 17.5 million students generating estimated revenues of \$364 billion. Postsecondary education institutions are generally grouped into one of three sectors: (1) public, not-for-profit, (2) private, not-for-profit and (3) private, for-profit. According to the NCES, the private for-profit sector included approximately 2,700 institutions with approximately 2.1 million students during the 2006-2007 academic school year. This sector has grown 15.4% annually between 1995 and 2005.

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

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

BUSINESS AND OPERATING STRATEGY

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

Grow Our Core Educational Institutions

AIU, CTU, IADT, LCB and Sanford-Brown generate in excess of 80% of our revenue and operating income. We are going to focus our time, energy, and resources on these five brands. We will adequately resource the remaining brands, but will be more judicious in allocating our internal resources and in prioritizing certain functional activities. As we look to delineate our core educational institutions, we may determine that certain schools do not meet our expected level of performance, at which time we will need to determine whether they have a long-term place in our portfolio.

We seek to foster organic growth by expanding program offerings at our schools. Many of our schools are able to leverage educational programs that have been successful at one of our campuses by selectively establishing similar programs at other campuses.

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

As of December 31, 2007, seven of our campuses were in the start-up stage. Our IADT San Antonio, TX, campus began instructing students in April 2007 and our IADT Sacramento, CA campus began instructing students in May 2007. Our LCB Dallas, TX campus began instructing students in October 2007 and our LCB Boston, MA campus is currently enrolling students and expects to begin instructing students in the second quarter of 2008. The Kitchen Academy in Sacramento, CA, has been instructing students since February 2007, and our two Kitchen Academy locations in Seattle, WA, and St. Peters, MO, expect to begin enrolling and instructing students in 2008.

For students whose lifestyles demand a non-traditional learning environment, our schools' fully-online platforms, AIU Online and CTU Online, which are part of our University segment, deliver a quality educational experience through 100% Internet-based courses. Our schools' fully-online platforms provide us with an opportunity to expand our business both domestically and internationally. We will continue to invest resources in this rapidly growing area of fully-online education to promote organic growth. We will also continue to explore the option of expanding our online presence through the offering of fully-online platforms at our on-ground schools and the introduction of new program offerings to our schools' existing fully-online platforms. In July 2007, we launched our IADT online platform.

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

Enter New Markets

We will continue to seek to grow our education institutions through geographic and programmatic extensions. We currently operate in 22 U.S. States and four countries outside of the U.S. We believe there are growth opportunities not only within the U.S. but also internationally, including Asia and Latin America.

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

Improve Academic and Operational Effectiveness

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

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

Build our Reputation and External Relationships

We are committed to maintaining an industry-leading compliance program. We have developed rules, policies and standards to guide the conduct of our employees. Our compliance objectives include the development of processes and controls to help ensure compliance with applicable rules, standards and laws. We believe that a key to meeting these objectives is our continued emphasis on individual and organizational responsibility for compliance. Additionally, we have utilized technology to improve the design and operation of our network of compliance controls and develop tools that enable our corporate and school personnel to proactively monitor their overall compliance environment for indicators of potential compliance issues.

Grow and Develop Our People

We strive to be an employer of choice and to ensure that we attract and retain highly skilled and motivated individuals at our schools and corporate offices to achieve operational and educational excellence throughout our organization. A significant part of our strategy will focus on providing our employees with formalized career succession plans, implementing new employee training programs, and aligning compensation programs to reward individuals for their contribution towards our success.

Student Recruitment and Admissions

Our schools seek highly motivated, career-oriented students with both the desire and ability to complete their academic programs of choice. To promote interest among potential students, each of our schools engages in a wide variety of marketing activities. Each of our campuses has an admissions office whose staff is responsible for identifying individuals interested in enrolling at the campuses. Admissions representatives serve as prospective students' primary contacts, providing information to help them make informed enrollment decisions and to assist them with the completion of the enrollment process. As of December 31, 2007 our schools employed approximately 2,220 admissions representatives servicing our students and potential students.

We seek to increase enrollment at each of our schools through concentrated local, regional, national and Internet-based marketing programs designed to maximize each campus market penetration. We continually strive to design marketing programs tailored to each of our campuses that highlight the quality of the educational programs offered and the job opportunities available to graduates of these programs.

The following table represents our estimated percentage of student starts generated by leads obtained from various marketing sources during the years ended December 31, 2007 and 2006:

	Year Ended December 31,	
	2007	2006
Internet	70%	68%
Referrals	14%	15%
Television and print	11%	12%
High school presentations	3%	3%
Direct mailings	1%	1%
Other	1%	1%

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

Student Academics and Retention

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

We continually emphasize the importance of student retention at each of our schools. As is the case at any postsecondary educational institution, a portion of our students fail to complete their academic programs for a variety of personal, financial or academic reasons. Our experience indicates that increases in revenue and profitability can be achieved through modest improvements in student retention rates. Furthermore, the costs to our schools of retaining current students are generally much less than the expense of the marketing efforts associated with attracting new students. Our schools' consolidated retention rates for the years ended December 31, 2007, 2006, and 2005, were approximately 67.7%, 66.2%, and 65.2%, respectively. These rates were determined in accordance with the standards set forth by the Accrediting Council for Independent Colleges and Schools (ACICS) to provide a common formula for all of our schools regardless of their accreditor.

Student Graduation and Employment

We place a high priority on assisting our students in graduating from their programs of study and securing employment in their careers of choice. We believe that the gainful employment of our students in their field of study is a key indicator of the success of our schools and the fulfillment of our educational mission. We believe

that our schools share with each student the responsibility for the student's long-term success. Our emphasis on providing personal support and assistance to our students is a hallmark of our educational model and, we believe, a key factor that differentiates us from our competitors.

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

As of December 31, 2007, we employed approximately 255 individuals in the career services departments of our campuses. In addition to our career services personnel, we have many externship coordinators who help students obtain externships that prepare them to effectively compete in the employment market.

Curriculum and Faculty Development

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

School Administration

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

Certain of our other schools have also established governing boards that assist with the development of the academic and operating strategy for the schools. These governing boards generally are comprised of several members of the local community who do not have an ownership interest in the school and one or more campus or corporate employees. Corporate management works closely with each of the governing boards to ensure compatibility among the governing board's objectives, the school's educational mission and our overall business and operating strategy.

Student Population

Our student population for continuing operations as of January 31, 2008 and 2007 was approximately 89,500 students and 84,700 students, respectively. Included in total student population for continuing operations as of January 31, 2008 and 2007, were approximately 31,940 students and 28,600 students, respectively, enrolled in our University and Academy segments fully-online academic platforms. Total student population for continuing operations by operating segment as of January 31, 2008 and 2007, and related student population demographic information as of December 31, 2007 and 2006, were as follows:

Student Population by Segment:

	As of January 31,	
	2008	2007
University segment	40,400	38,400
Culinary Arts segment	10,900	10,900
Health Education segment(1)	13,500	11,600
Colleges segment(2)	7,700	8,700
Academy segment(3)	8,400	7,500
International segment	8,600	7,600
	89,500	84,700

- (1) Health Education segment student population excludes SBI Springfield, MA, which was taught out in September 2007.
- (2) Colleges segment student population excludes the Brooks College, Long Beach and Sunnyvale, CA campuses, which are currently being taught out.
- (3) Academy segment student population excludes IADT Pittsburgh, PA and IADT Toronto, Canada, which are currently being taught out.

Online Student Population:

	As of January 31,	
	2008	2007
AIU Online(1)	15,600	16,300
CTU Online(1)	15,900	12,300
Academy Online	440	
Total online	31,940	28,600

- (1) AIU Online and CTU Online student populations are included in the University segment of the student population by segment table.

Student Population by Age Group:

Age Group	As a Percentage of Total Student Population as of	
	December 31,	
	2007	2006
Under 21	20%	21%
21 to 30	47%	47%
Over 30	33%	32%

Student Population by Core Curricula:

	As a Percentage of Total Student Population as of December 31,	
	2007	2006
Business Studies	44%	44%
Visual Communication and Design Technologies	21%	23%
Health Education	16%	14%
Culinary Arts	12%	12%
Information Technology	7%	7%

Student Population by Degree Granting Program:

	As a Percentage of Total Student Population as of December 31,	
	2007	2006
Doctoral, Master's, Bachelor's Degree	41%	51%
Associate Degree	43%	34%
Certificate	16%	15%

Student Starts by Segment:

Total student starts for continuing operations during the years ended December 31, 2007 and 2006, were approximately 95,500 students and 89,700 students, respectively. Included in total student starts for continuing operations during the years ended December 31, 2007 and 2006, were approximately 44,700 and 42,400 student starts, respectively, enrolled in our University and Academy segments' fully-online academic platforms. Total student starts for continuing operations by operating segment for the years ended December 31, 2007 and 2006, were as follows:

	For the Year Ended December 31,	
	2007	2006
University segment	51,300	50,000
Culinary Arts segment	11,700	10,900
Health Education segment(1)	15,300	13,600
Colleges segment(2)	4,700	5,400
Academy segment(3)	6,000	5,300
International segment(4)	6,500	4,500
	95,500	89,700

- (1) Health Education segment student starts exclude SBI Springfield, MA, which was taught out in September 2007.
- (2) Colleges segment student starts exclude the Brooks Colleges, Long Beach and Sunnysvale, CA campuses, which are currently being taught out.
- (3) Academy segment student starts exclude IADT Pittsburgh, PA and IADT Toronto, Canada, which are currently being taught out.
- (4) International segment student starts for 2007 include student starts for Istituto Marangoni, which was acquired in January 2007.

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

SCHOOL AND CAMPUS INFORMATION TABLE

School and Campus Locations	Website	Year School Founded	Date Acquired / Opened(1)	Principal Curricula(2)
ACADEMY DIVISION:				
International Academy of Design & Technology (IADT)		1977(3)		B, IT, VC
IADT-Chicago, <i>Chicago, IL</i>	www.iadtchicago.edu		6/97	
IADT-Detroit, <i>Troy, MI</i>	www.iadtdetroit.com		10/03*	
IADT-Las Vegas, <i>Henderson, NV</i>	www.iadtvegas.com		4/04*	
IADT-Nashville, <i>Nashville, TN</i>	www.iadtnashville.com		7/04*	
IADT-Orlando, <i>Orlando, FL</i>	www.iadt.edu		4/01*	
IADT-Sacramento, <i>Sacramento, CA</i>	www.iadt.sacramento.com		5/07*	
IADT-San Antonio, <i>San Antonio, TX</i>	www.iadtsanantonio.com		4/07*	
IADT-Schaumburg, <i>Schaumburg, IL</i>	www.iadtschaumburg.com		1/04*	
IADT-Seattle, <i>Seattle, WA</i>	www.iadtseattle.com		10/04*	
IADT-Tampa, <i>Tampa, FL</i>	www.academy.edu		6/97	
COLLEGES DIVISION:				
Briarcliffe College	www.bcl.org	1966	4/99	B, IT, VC
Briarcliffe College, <i>Bethpage and Queens, NY</i> (4)				
Briarcliffe College, <i>Patchogue, NY</i>				
Brooks Institute, Santa Barbara and Ventura, CA (4)	www.brooks.edu	1945	6/99	VC
Brown College, Mendota Heights and Brooklyn Center, MN (4)	www.browncollege.edu	1946	10/95	B, HE, IT, VC
Collins College, Tempe and Phoenix, AZ (4)	www.collinscollege.edu	1978	1/94	IT, VC
Harrington College of Design, Chicago, IL	www.interiordesign.edu	1931	1/99	VC
CULINARY ARTS DIVISION:				
California Culinary Academy, San Francisco, CA	www.baychef.com	1977	4/00	CA
California School of Culinary Arts, Pasadena, CA	www.csca.edu	1994	3/98	CA
The Cooking & Hospitality Institute of Chicago, Chicago, IL	www.chic.edu	1983	2/00	CA
Kitchen Academy, Hollywood, CA	www.kitchenacademy.com	2005	7/05*	CA
Kitchen Academy, Sacramento, CA		2007	2/07*	CA
Le Cordon Bleu College of Culinary Arts (LCB)				CA
LCB-Atlanta, <i>Tucker, GA</i>	www.atlantaculinary.com	2003	10/03*	
LCB-Dallas, <i>Dallas, TX</i>	www.dallasculinary.com	2007	10/07*	
LCB-Las Vegas, <i>Las Vegas, NV</i>	www.vegasculinary.com	2003	7/03*	
LCB-Miami, <i>Miramar, FL</i>	www.miamiculinary.com	2003	6/04*	
LCB-Minneapolis/St. Paul, <i>Mendota Heights, MN</i>	www.twincitiesculinary.com	2000	2/05*	

School and Campus Locations	Website	Year School Founded	Date Acquired / Opened(1)	Principal Curricula(2)
Orlando Culinary Academy, Orlando, FL	www.orlandoculinary.com	2002	7/02*	CA
Pennsylvania Culinary Institute, Pittsburgh, PA	www.pci.edu	1986	12/01	CA
Scottsdale Culinary Institute, Scottsdale, AZ	www.chefs.edu	1986	10/98	CA
Texas Culinary Academy, Austin, TX	www.tca.edu	1985	8/01	CA
Western Culinary Institute, Portland, OR	www.wci.edu	1983	10/96	CA
HEALTH EDUCATION DIVISION:				
Missouri College, St. Louis, MO	www.missouricollege.com	1963	9/02	HE, IT, VC
Sanford-Brown College (SBC)	www.sanford-brown.edu	1866(3)	7/03	B, HE, IT
SBC-Collinsville, Collinsville, IL				
SBC-Cleveland, Middleburg Heights, OH				
SBC-Fenton, Fenton, MO				
SBC-Hazelwood, Hazelwood, MO				
SBC- St. Peters, St. Peters MO				
SBC-Milwaukee, West Allis, WI			6/05*	
Sanford-Brown Institute (SBI)	www.sanford-brown.edu	1977(3)	7/03	HE
SBI-Atlanta, Atlanta, GA				
SBI-Dallas, Dallas, TX				
SBI-Ft. Lauderdale, Ft. Lauderdale, FL				
SBI-Garden City, Garden City, NY				
SBI-Houston, Houston, TX			10/03*	
SBI-North Loop, Houston, TX				
SBI-Iselin, Iselin, NJ				
SBI-Jacksonville, Jacksonville, FL				
SBI-Landover, Landover, MD				
SBI-New York, New York, NY				
SBI-Tampa, Tampa, FL				
SBI-Philadelphia, Treose, PA				
SBI-White Plains, White Plains, NY				
Western School of Health and Business Careers				
(Western)	www.western-school.com	1980	8/03	B, HE, IT
Western, Pittsburgh, PA				
Western, Monroeville, PA				
INTERNATIONAL DIVISION:				
The International GROUP	www.inseec-france.com	1975(3)	2/03	B, HE, VC
CEFIRE, Paris, France				
ECE Bordeaux, Bordeaux, France				
ECE Lyon, Lyon, France				
INSEEC Bordeaux, Bordeaux, France				
INSEEC Paris, Paris, France				
MBA Institute, Paris, France				
Sup de Pub, Paris, France				
Sup Sante, Lyon, France				
Sup Sante, Paris, France				
Istituto Marangoni, Milan, Italy; London, England; Paris, France		1935	1/07	VC

School and Campus Locations	Website	Year School Founded	Date Acquired / Opened(1)	Principal Curricula(2)
UNIVERSITY DIVISION:				
American InterContinental University (AIU)	www.aiuniv.edu	1970(3)	1/01	B, IT, VC
AIU-Buckhead, <i>Atlanta, GA</i>				
AIU-Dunwoody, <i>Atlanta, GA</i>				
AIU-Houston, <i>Houston, TX</i>				
AIU-London, <i>London, England</i>				
AIU-Los Angeles, <i>Los Angeles, CA</i> (5)	www.aiuonline.edu		10/03	
AIU-Online				
AIU-South Florida, <i>Weston, FL</i>	www.coloradotech.edu	1965(3)	7/03	B, HE, IT, VC
Colorado Technical University (CTU)				
CTU Colorado Springs, <i>Colorado Springs and Pueblo, CO</i> (4)				
CTU Denver, <i>Denver and Denver North, CO</i> (4)				
CTU North Kansas City, <i>North Kansas City, MO</i>				
CTU Online				
CTU Sioux Falls, <i>Sioux Falls, SD</i>				

- (1) Represents the date on which we acquired the school or individual campus. Start-up campuses that we opened after the initial school acquisition are marked by an *. For start-up campuses, the date opened corresponds to the date on which students first matriculated.
- (2) Our schools offer degree and diploma programs within our core curricula of business studies (B), culinary arts (CA), health education (HE), information technology (IT), and visual communication and design technologies (VC). All of our campuses are degree-granting, with the exception of Kitchen Academy and our Sanford-Brown campuses located in Georgia, New York, Maryland, New Jersey and Texas, except for the Houston location.
- (3) Represents the year during which the first campus was founded.
- (4) The first location listed represents the school's main campus location and the second location listed represents a satellite campus of the school. We define a satellite campus as a separate location of a main or branch campus that is in reasonable geographic proximity to, and is managed by, the related main or branch campus. Satellite campuses are not included in our campus count.
- (5) In February 2008, we announced our intention to teach-out this campus.

The table above excludes schools that, as of December 31, 2007, were held for sale, schools and campuses that have been or are currently being taught-out, and schools and campuses sold. Selected information regarding each of our schools and campuses that was held for sale or sold, along with our teach-out campus locations, is summarized in the following table:

SCHOOLS AND CAMPUSES HELD FOR SALE, SOLD, OR BEING TAUGHT-OUT INFORMATION TABLE

School and Campus Locations	Date Acquired / Opened	Date Closed / Sold
HELD FOR SALE		
Gibbs College(1):	5/97	N/A
Gibbs College, <i>Cranston, RI</i>		
Gibbs College, <i>Livingston and Piscataway, NJ</i>		
Gibbs College, <i>Norwalk and Farmington, CT</i>		
Gibbs College of Boston, Inc. a private two-year college, <i>Boston, MA</i>		
Katharine Gibbs School, <i>Melville, NY</i>		
Katharine Gibbs School, <i>New York, NY</i>		
Katharine Gibbs School, <i>Norristown, PA</i>	4/01	N/A
Katharine Gibbs School, <i>Piscataway, NJ</i>		
Gibbs College, <i>Vienna, VA</i>	12/99	N/A
Lehigh Valley College (1), <i>Center Valley, PA</i>	10/95	N/A
McIntosh College (1), <i>Dover, NH</i>	3/99	N/A
TEACH-OUT		
Brooks College:		
Brooks College, <i>Long Beach, CA</i>	10/94	N/A
Brooks College, <i>Sunnyvale, CA</i>	10/02	N/A
International Academy of Design & Technology:		
IADT-Fairmont, <i>Fairmont, WV</i>	2/97	3/06
IADT-Pittsburgh, <i>Pittsburgh, PA</i>	2/97	N/A
IADT-Ottawa, <i>Ottawa, Canada</i>	9/00	3/05
IADT-Toronto, <i>Toronto, Ontario, Canada</i>	6/97	N/A
Sanford-Brown Institute, <i>Springfield, MA</i>	7/03	9/07
SOLD		
International Academy of Design & Technology,		
IADT-Montreal, <i>Montreal, Canada</i>	6/97	3/05

(1) In February 2008, we announced our intention to teach-out all of these schools, with the exception of Katharine Gibbs School, Melville, NY and Gibbs College, Vienna, VA.

ACCREDITATION

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

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

A listing of our U.S.-accredited schools, including all main and branch campus locations for regulatory purposes, and relevant accreditation information as of December 31, 2007 is provided in the following table:

ACCREDITATION TABLE

School, Main Campus Location (Branch campuses are in parentheses)	Accreditor(1)	Year of Accreditation Expiration(2)
American InterContinental University Atlanta/Buckhead, GA (<i>Atlanta/Dunwoody, GA; Weston, FL; Los Angeles, CA; Houston, TX; London, England; Online</i>)	SACS	2012(3)
Briarcliffe College Bethpage, NY (<i>Patchogue, NY</i>)	MSA	2011
Brooks College Long Beach, CA (<i>Sunnyvale, CA</i>)	ACCJC	2010
Brooks Institute Santa Barbara, CA	ACICS	2010
Brown College Mendota Heights, MN	ACCSCT	2011
California Culinary Academy San Francisco, CA	ACCSCT	2010
California School of Culinary Arts Pasadena, CA (<i>Kitchen Academy, Hollywood, CA</i>)	ACICS	2012
Collins College Tempe, AZ	ACCSCT	2010
Colorado Technical University Colorado Springs, CO (<i>Denver, CO; North Kansas City, MO; Sioux Falls, SD; Online</i>)	NCA	2012
The Cooking & Hospitality Institute of Chicago Chicago, IL	NCA	2008
Gibbs College Cranston, RI	ACICS	2009
Gibbs College Livingston, NJ (<i>Katharine Gibbs School, Piscataway, NJ</i>)	ACICS	2013
Gibbs College Norwalk, CT (<i>Farmington, CT</i>)	ACICS	2011
Gibbs College Vienna, VA	ACICS	2010

School, Main Campus Location (Branch campuses are in parentheses)	Accreditor(1)	Year of Accreditation Expiration(2)
Gibbs College of Boston, Inc, a private two-year college Boston, MA	ACICS	2008
Harrington College of Design Chicago, IL	ACICS	2008
International Academy of Design & Technology Chicago, IL (<i>Troy, MI; Schaumburg, IL</i>)	ACICS	2008
International Academy of Design & Technology Nashville, TN (<i>Pittsburgh, PA</i>)	ACICS	2013
International Academy of Design & Technology Tampa, FL (<i>Orlando, FL; Henderson, NV; Sacramento, CA; San Antonio, TX; Seattle, WA; Orlando Culinary Academy, Orlando, FL</i>)	ACICS	2010
Katharine Gibbs School Melville, NY	ACICS	2009
Katharine Gibbs School New York, NY (<i>Norristown, PA</i>)	ACICS	2008
Lehigh Valley College Center Valley, PA	ACICS	2009
McIntosh College Dover, NH	NEASC	2008
Missouri College St. Louis, MO	ACCSCT	2011
Pennsylvania Culinary Institute Pittsburgh, PA (<i>Le Cordon Bleu College of Culinary Arts Miami, Miramar, FL</i>)	ACCSCT	2010(4)
Sanford-Brown College Fenton, MO (<i>Collinsville, IL; St. Peters, MO</i>)	ACICS	2011
Sanford-Brown Institute Atlanta, GA (<i>Houston, TX; Houston/North Loop, TX; Landover, MD; Ft. Lauderdale, FL; New York, NY; Trevoise, PA; Sanford-Brown College, Middleburg Heights, OH; Sanford-Brown College, Hazelwood, MO</i>)	ACICS	2008
Sanford-Brown Institute Dallas, TX (<i>Garden City, NY</i>)	ACICS	2008
Sanford-Brown Institute Jacksonville, FL (<i>Iselin, NJ; Tampa, FL; Sanford-Brown College, West Allis, WI</i>)	ACICS	2007(5)
Sanford-Brown Institute White Plains, NY	ACICS	2013
Scottsdale Culinary Institute Scottsdale, AZ (<i>Le Cordon Bleu College of Culinary Arts Las Vegas, Las Vegas, NV</i>)	ACCSCT	2010

School, Main Campus Location (Branch campuses are in parentheses)	Accreditor(1)	Year of Accreditation Expiration(2)
Texas Culinary Academy Austin, TX (<i>Le Cordon Bleu Institute of Culinary Arts Dallas, Dallas, TX; Kitchen Academy, Sacramento, CA</i>)	ACICS	2009
Western Culinary Institute Portland, OR (<i>Le Cordon Bleu College of Culinary Arts Atlanta, Tucker, GA; Le Cordon Bleu College of Culinary Arts Minneapolis/ St. Paul, Mendota Heights, MN</i>)	ACCST	2012(6)
Western School of Health and Business Careers Pittsburgh, PA (<i>Monroeville, PA</i>)	ACCST	2009

- (1) Below is a key to the accreditation abbreviations used in the table:
- a. ABHES Accrediting Bureau of Health Education Schools
 - b. ACCST Accrediting Commission of Career Schools and Colleges of Technology
 - c. ACICS Accrediting Council for Independent Colleges and Schools
 - d. MSA Middle States Association of Colleges and Schools, Commission on Higher Education
 - e. NEASC New England Association of Schools and Colleges, Commission on Technical and Career Institutions
 - f. NCA North Central Association of Colleges and Schools, Higher Learning Commission
 - g. SACS Southern Association of Colleges and Schools, Commission on Colleges
 - h. ACCJC Western Association of Schools and Colleges, Accrediting Commission for Community and Junior Colleges
- (2) Status as of February 26, 2008.
- (3) In December 2007, AIU was notified by SACS that it had been removed from probationary status and AIU's accreditation remains in good standing. See Note 13 Commitments and Contingencies Accrediting Body Matters of the notes to our consolidated financial statements for further discussion of this matter
- (4) Accreditation for the Miramar branch campus expires in 2011.
- (5) Accreditation has been extended through April 30, 2008, while the school completes the reaccreditation process.
- (6) Accreditation for the Tucker branch campus expires in 2010.

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

PROGRAMATIC ACCREDITATION TABLE

Accrediting Body	Campus	Program Accredited
Accreditation Council for Occupational Therapy Education	Sanford-Brown College, Hazelwood	Occupational therapy assistant program
American Society of Health Systems Pharmacists	Western School of Health and Business Careers, Monroeville	Pharmacy technician program
Accreditation Board for Engineering and Technology	Colorado Technical University, Colorado Springs	Engineering programs
Accrediting Bureau of Health Education Schools	Colorado Technical University, North Kansas City; McIntosh College, Sanford-Brown College, Collinsville, Hazelwood, and Middleburg Heights; Sanford-Brown Institute, Atlanta, Dallas, Ft. Lauderdale, Garden City, Houston, Houston North, Iselin, Jacksonville, Landover, New York, Tampa, Trevoise, and White Plains; Western School of Health and Business Careers, Pittsburgh and Monroeville	Medical assistant programs
Accrediting Bureau of Health Education Schools	Sanford-Brown Institute, Dallas, Ft. Lauderdale, Houston, Houston North, Iselin, Jacksonville, and Tampa	Surgical technology programs
American Culinary Federation Foundation Accrediting Commission	California Culinary Academy, The Cooking & Hospitality Institute of Chicago, Le Cordon Bleu College of Culinary Arts Atlanta, Le Cordon Bleu College of Culinary Arts Minneapolis/St. Paul, McIntosh College (Atlantic Culinary Academy), Orlando Culinary Academy, Pennsylvania Culinary Institute, Scottsdale Culinary Institute, Texas Culinary Academy, Western Culinary Institute	Culinary programs
American Culinary Federation Foundation Accrediting Commission	Scottsdale Culinary Institute	Pastry and baking program

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

STUDENT FINANCIAL AID

Many of our students require assistance in financing their education. For this reason, all of our schools offer financial aid programs and financing options. A majority of students who attend our U.S. accredited schools are eligible to participate in some form of government-sponsored financial aid programs. Our schools also participate in a number of state financial aid programs and offer private funding options. Our schools that participate in federal financial aid programs are subject to extensive regulatory requirements imposed by federal and state government agencies, including the ED, and other standards imposed by educational accrediting bodies.

Nature of Federal Support for Postsecondary Education in the United States

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

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

Federal Family Education Loan (FFEL) Program. Loans under the FFEL program are made by banks and other lending institutions directly to our students or their parents. If a student or parent defaults on a FFEL program loan, repayment is guaranteed by a federally recognized guaranty agency, which is then reimbursed by the ED. Our schools and students use a wide variety of lenders and guaranty agencies and have not experienced difficulties in identifying lenders and guaranty agencies willing to make and guarantee FFEL program loans. FFEL program loans are generally obtained by our students under the Federal Stafford Loan (Stafford Loan) program and the Federal Parent Loan for Undergraduate Students Loan (PLUS Loan) Program.

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

A student is not required to meet any specific credit scoring criteria to receive a Stafford Loan, but any student with a prior Stafford Loan default or who has been convicted under federal or state law of selling or possessing drugs while receiving federal aid may not be eligible for a Stafford Loan. The ED has established maximum annual borrowing limits with respect to Stafford Loans, and these annual limits are generally less than the tuition costs at our U.S. schools.

A PLUS Loan is a loan made directly by financial institutions to either graduate students or to the parents of our dependent students. Graduate students and parents who have an acceptable credit history may borrow under a PLUS Loan to pay the educational expenses of a child who is a dependent student enrolled at least half-time at our U.S. schools. The amount of a PLUS Loan cannot exceed the student's cost of attendance less all other financial aid received.

Federal Grants. Title IV Program grants are generally made to our students under the Federal Pell Grant (Pell Grant) program and the Federal Supplemental Educational Opportunity Grant (FSEOG) program. The ED makes Pell Grants up to a maximum amount of \$4,310 per award year to students who demonstrate financial need. FSEOG program awards are designed to supplement Pell Grants up to a maximum amount of \$4,000 per award year for the neediest students. An institution is required to make a 25% matching contribution for all federal funds received under the FSEOG program.

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

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

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

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

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

Whether or not Congress addresses reauthorization, there will be further legislation changes. In the absence of reauthorization, Congress currently has several student aid bills on the legislature floor to consider. However, if the HEA is reauthorized, it will override the current legislation. Therefore, at this time, we cannot determine the scope, content or effect of pending changes. Any action by Congress that significantly reduces Title IV Program funding or the ability of our schools or students to participate in Title IV Programs could have a material adverse effect on our student population, financial condition, results of operations and cash flows. Legislative action may also require us to modify our practices for our schools to comply fully with applicable requirements. The adoption of any such modifications could result in additional administrative costs, which could have a material adverse effect on our financial condition, results of operations, and cash flows.

The College Cost Reduction and Access Act was signed by President Bush on September 27, 2007 and was effective as of October 1, 2007. The Act authorizes Federal Pell Grants through 2017, reduces Stafford Loan interest rates through the year 2011, moves the burden of some fees to lender and guarantee agencies, expands Stafford Loan deferment options, and provides changes to needs analysis and independent status for the years of 2009 through 2010.

Alternative Student Financial Aid Sources

As the financial aid available to our students under Title IV Programs and state programs is generally less than the tuition costs at our U.S. schools and our students' financial needs, many of our students secure private loans to finance a portion of their tuition costs. These private loans are made directly to our students by financial institutions and are not guaranteed under the FFEL program.

The fees and interest rates on these private loans are generally greater than the loans made under the FFEL program due to the lack of a government guarantee on these private loans. The fees and interest rates on these private loans will also vary depending on the credit history of the student or co-borrower, with fees and interest rates being lower for students and co-borrowers with better credit histories.

The majority of our students, individually or with a co-borrower, are able to obtain non-recourse private loans from financial institutions. A financial institution providing a non-recourse loan assumes 100% of the credit risk on the loan. To receive a non-recourse loan, the student, or the student and a co-borrower, must meet the credit criteria established by the financial institution for these loans. Each financial institution has established its respective credit criteria and loan limits. Students and co-borrowers can generally borrow an amount equal to the student's cost of attendance less all other financial aid received. The majority of non-recourse private loans received by our students at our U.S. schools during the years ended December 31, 2007, 2006, and 2005, were provided by SLM Corporation or its subsidiaries, collectively known as Sallie Mae.

We have been able to secure recourse loans with financial institutions for some students who do not qualify for non-recourse loans due to low credit scores. These recourse loan programs require that we allow the financial institution providing the recourse loans to retain an agreed-upon portion of the loans funded as a reserve against future defaults on these loans.

The loan amounts available to our students under these recourse loan programs are generally less than the amounts available under non-recourse loan programs and often cover only the direct costs associated with their education less any other financial aid received. We believe that providing recourse loans to our students utilizing these lower loan amounts allows them to receive the financing needed to attend our schools while controlling the amount of recourse fees incurred by our schools in connection with these loans. Our cash receipts from these recourse loan programs over the last three years have not exceeded 3% of total cash tuition payments received in any one year. See Note 10 Recourse Loan Agreements of the notes to our consolidated financial statements for further discussion of our recourse loan agreements.

On January 18, 2008, we received notification that Sallie Mae would be terminating its recourse loan program with us, and more broadly within all of the postsecondary education market. Sallie Mae also notified us that while it intends to continue their non-recourse programs with us, Sallie Mae is also reviewing various aspects of such programs, including underwriting criteria. Sallie Mae agreed to extend the recourse loan program past the 30 day termination period to March 31, 2008. During the extension period the discount fee on loans certified during that period increases from 25% to 44%. Our efforts to work with Sallie Mae to arrange continued funding for active students that currently utilize Sallie Mae recourse loans past March 31, 2008 were not successful. We were notified by Sallie Mae on February 14, 2008 that it would no longer continue to offer recourse to existing students entering their second or subsequent academic term. We are working with third parties as well as internally to implement a funding program that will assist these students in continuing their program of study. We have estimated that up to \$60 million of 2007 annual revenue was related to programs provided to new students who are impacted by the Sallie Mae decision to terminate its recourse loan program.

Compliance with Federal Regulatory Standards and Effect of Federal Regulatory Violations

We and our schools are subject to and have pending audits, compliance reviews, inquiries, investigations, claims of non-compliance, and lawsuits by the ED and federal and state regulatory agencies, accrediting agencies, present and former students and employees, stockholders, and other third parties that may allege

violations of statutes, regulations, accreditation standards, or other regulatory requirements applicable to us or our schools. The HEA also requires that an institution's administration of Title IV Program funds be audited annually by an independent accounting firm and that the resulting audit report be submitted to the ED for review.

If the results of any such audits, reviews, investigations, claims, or actions are unfavorable to us, we may be required to pay monetary damages or be subject to fines, operational limitations, loss of federal funding, injunctions, additional oversight and reporting, or other civil or criminal penalties. In addition, if the ED or another regulatory agency determined that one of our schools improperly disbursed Title IV Program funds or violated a provision of the HEA or the ED's regulations, that school could be required to repay such funds, and could be assessed an administrative fine. We have several such matters pending against us or one or more of our schools. See Note 13 Commitments and Contingencies Federal, State, and Accrediting Body Regulatory Matters of the notes to our consolidated financial statements for further discussion of certain of these matters.

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

An institution whose cohort default rate equals or exceeds 25% for three consecutive years will no longer be eligible to participate in the FFEL or Pell Grant programs for the remainder of the federal fiscal year in which the ED determines that such institution has lost its eligibility and for the two subsequent federal fiscal years. An institution whose cohort default rate under the FFEL program for any federal fiscal year exceeds 40% will no longer be eligible to participate in the FFEL program for the remainder of the federal fiscal year in which the ED determines that the institution has lost its eligibility and for the two subsequent federal fiscal years. An institution whose cohort default rate under the FFEL program equals or exceeds 25% for any one of the three most recent federal fiscal years, or whose cohort default rate under the Perkins Loan program exceeds 15% for any year, may be placed on provisional certification status by the ED for up to four years. These thresholds, and the formula by which cohort default rates are calculated, are being considered for possible changes by Congress as a part of the pending HEA reauthorization legislation.

All of our schools have implemented student loan default management programs aimed at reducing the likelihood of our students' failure to repay their loans in a timely manner. Those programs emphasize the importance of students' compliance with loan repayment requirements and provide for extensive loan counseling, methods to increase student persistence and completion rates and graduate employment rates, and proactive borrower contacts after students cease enrollment. If any of our schools were to lose eligibility to participate in Title IV Programs due to student loan default rates being higher than the ED's tolerable thresholds and we could not arrange for adequate alternative student financing sources, we would most likely have to close those schools, which could have a material adverse effect on our student population, financial condition, results of operations, and cash flows.

All of our domestic schools participate in the FFEL program, with the exception of our Kitchen Academy campuses, and none of our participating schools had a FFEL cohort default rate of 25% or greater during any of the last three federal fiscal years. The following table sets forth the FFEL cohort default rates for our schools for federal fiscal years 2005, 2004, and 2003, the most recent years for which the ED has published such rates:

COHORT DEFAULT RATE TABLE