CAREER EDUCATION CORP
Form 10-Q
May 04, 2011
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark one)

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

FOR THE QUARTERLY PERIOD ENDED MARCH 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 or other jurisdiction of	**(I.R.S. Employer**
incorporation or organization)	**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

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 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

Number of shares of registrant s common stock, par value $0.01, outstanding April 29, 2011: 77,596,424

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CAREER EDUCATION CORPORATION AND SUBSIDIARIES

UNAUDITED CONSOLIDATED BALANCE SHEETS

(In thousands, except share and per share amounts)

	March 31, 2011	December 31, 2010
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 239,261	$ 289,482
Short-term investments	159,831	159,671
Total cash and cash equivalents and short-term investments	399,092	449,153
Student receivables, net of allowance for doubtful accounts of $49,344 and $50,104 as of March 31, 2011 and December 31, 2010, respectively	64,147	62,287
Receivables, other, net	3,352	4,132
Prepaid expenses	34,768	52,077
Inventories	11,502	13,142
Deferred income tax assets, net	31,665	31,665
Other current assets	21,905	6,246
Assets of discontinued operations	4,865	6,742
Total current assets	571,296	625,444
NON-CURRENT ASSETS:		
Property and equipment, net	359,678	366,775
Goodwill	384,397	381,476
Intangible assets, net	118,499	118,763
Student receivables, net of allowance for doubtful accounts of $37,937 and $40,840 as of March 31, 2011 and December 31, 2010, respectively	9,667	12,522
Deferred income tax assets, net	4,208	5,092
Other assets, net	32,479	42,752
Assets of discontinued operations	18,975	19,055
TOTAL ASSETS	$ 1,499,199	$ 1,571,879
LIABILITIES AND STOCKHOLDERS EQUITY		
CURRENT LIABILITIES:		
Current maturities of capital lease obligations	$ 862	$ 783
Accounts payable	41,469	56,013
Accrued expenses:		
Payroll and related benefits	47,665	73,608
Advertising and production costs	27,855	18,846
Income taxes	17,254	
Earnout payments	17,643	17,439
Other	52,563	98,113
Deferred tuition revenue	171,205	176,102
Liabilities of discontinued operations	14,908	15,100
Total current liabilities	391,424	456,004
NON-CURRENT LIABILITIES:		
Capital lease obligations, net of current maturities	561	1,223
Deferred rent obligations	104,224	103,996
Earnout payments	3,251	7,690
Other liabilities	40,570	30,853
Liabilities of discontinued operations	32,839	37,576

Total non-current liabilities	181,445	181,338
SHARE-BASED AWARDS SUBJECT TO REDEMPTION	137	153
STOCKHOLDERS EQUITY:		
Preferred stock, $0.01 par value; 1,000,000 shares authorized; none issued or outstanding		
Common stock, $0.01 par value; 300,000,000 shares authorized; 82,058,619 and 81,220,265 shares issued, 77,658,525 and 81,209,410 shares outstanding as of March 31, 2011 and December 31, 2010, respectively	821	812
Additional paid-in capital	582,497	576,853
Accumulated other comprehensive income (loss)	8,247	(81)
Retained earnings	430,042	356,991
Cost of 4,400,094 and 10,855 shares in treasury as of March 31, 2011 and December 31, 2010, respectively	(95,414)	(191)
Total stockholders equity	926,193	934,384
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	$ 1,499,199	$ 1,571,879

The accompanying notes are an integral part of these unaudited consolidated financial statements.

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CAREER EDUCATION CORPORATION AND SUBSIDIARIES

UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share amounts)

	For the Quarters Ended March 31, 2011	2010
REVENUE:		
Tuition and registration fees	$ 521,094	$ 509,508
Other	22,267	19,918
Total revenue	543,361	529,426
OPERATING EXPENSES:		
Educational services and facilities	168,901	159,162
General and administrative	240,859	264,140
Depreciation and amortization	20,366	16,678
Total operating expenses	430,126	439,980
Operating income	113,235	89,446
OTHER INCOME (EXPENSE):		
Interest income	237	247
Interest expense	(26)	(13)
Miscellaneous income (expense)	2,000	(277)
Total other income (expense)	2,211	(43)
PRETAX INCOME	115,446	89,403
Provision for income taxes	41,861	32,257
INCOME FROM CONTINUING OPERATIONS	73,585	57,146
LOSS FROM DISCONTINUED OPERATIONS, net of tax	(550)	(1,924)
NET INCOME	$ 73,035	$ 55,222
NET INCOME (LOSS) PER SHARE BASIC:		
Income from continuing operations	$ 0.97	$ 0.69
Loss from discontinued operations	(0.01)	(0.02)
Net income per share	$ 0.96	$ 0.67
NET INCOME (LOSS) PER SHARE DILUTED:		
Income from continuing operations	$ 0.96	$ 0.69
Loss from discontinued operations	(0.01)	(0.03)
Net income per share	$ 0.95	$ 0.66

WEIGHTED AVERAGE SHARES OUTSTANDING:		
Basic	76,139	82,298
Diluted	76,753	83,116

The accompanying notes are an integral part of these unaudited consolidated financial statements.

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CAREER EDUCATION CORPORATION AND SUBSIDIARIES

UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

	For the Quarters Ended March 31, 2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 73,035	$ 55,222
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization expense	20,366	16,753
Bad debt expense	17,151	26,217
Compensation expense related to share-based awards	4,200	4,995
(Gain)/loss on disposition of property and equipment	(1,801)	337
Changes in operating assets and liabilities	(53,295)	(50,056)
Net cash provided by operating activities	59,656	53,468
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of available-for-sale investments	(60,934)	(117,628)
Sales of available-for-sale investments	60,774	111,782
Purchases of property and equipment	(23,792)	(19,757)
Earnout payments	(4,235)	(4,382)
Proceeds on the sale of assets	6,259	
Other	85	(309)
Net cash used in investing activities	(21,843)	(30,294)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Purchase of treasury stock	(89,915)	(89,637)
Issuance of common stock	1,292	883
Tax benefit associated with stock option exercises	159	64
Payments of capital lease obligations	(641)	(749)
Net cash used in financing activities	(89,105)	(89,439)
EFFECT OF FOREIGN CURRENCY EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS:	1,071	(2,857)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(50,221)	(69,122)
DISCONTINUED OPERATIONS CASH ACTIVITY INCLUDED ABOVE:		
Add: Cash balance of discontinued operations, beginning of the period		738
Less: Cash balance of discontinued operations, end of the period		169
CASH AND CASH EQUIVALENTS, beginning of the period	289,482	284,334
CASH AND CASH EQUIVALENTS, end of the period	$ 239,261	$ 215,781

The accompanying notes are an integral part of these unaudited consolidated financial statements.

CAREER EDUCATION CORPORATION AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

(In thousands, except per share amounts)

1. DESCRIPTION OF THE COMPANY

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 more than 119,000 students across the world in a variety of career-oriented disciplines through online, on-ground and hybrid learning program offerings. The more than 90 campuses that serve these students are located throughout the United States and in France, Italy, the United Kingdom and Monaco, and offer doctoral, master s, bachelor s and associate degrees and diploma and certificate programs.

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

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

As used in this Quarterly Report on Form 10-Q, the terms we, us, our, the Company and CEC refer to Career Education Corporation and our wholly-owned subsidiaries. The terms school and university 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.

2. BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (GAAP) for interim financial information and the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, the financial statements do not include all of the information and notes required by GAAP for complete financial statements. In the opinion of management, all adjustments, including normal recurring accruals, considered necessary for a fair presentation have been included. Operating results for the quarter ended March 31, 2011, are not necessarily indicative of the results that may be expected for the year ending December 31, 2011.

The unaudited consolidated financial statements presented herein include the accounts of CEC. All inter-company transactions and balances have been eliminated.

The Company analyzes performance and makes decisions based on the allocation of resources, and as a result, in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 280 *Segment Reporting*, we determined that the following reporting segments would be reported as of January 1, 2011: CTU, AIU, Health Education, Culinary Arts, Art & Design and International. This change in reporting segments was a result of changes in the organizational structure. This will result in no change to our previously reported Health Education, Culinary Arts and International segments. Our previously reported University segment will now be divided into three components: CTU, AIU and Art & Design. All prior period results have been recast to present results on a comparable basis.

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CAREER EDUCATION CORPORATION AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In thousands, except per share amounts)

As of March 31, 2011, we have reclassified a portion of our current assets and liabilities associated with uncertain tax positions as non-current. Our December 31, 2010 unaudited consolidated balance sheet has been recast to be comparable to the current period.

3. RECENT ACCOUNTING PRONOUNCEMENTS

In December 2010, the FASB issued Accounting Standards Update (ASU) No. 2010-29, *Business Combinations (Topic 805): Disclosure of Supplementary Pro Forma Information for Business Combinations.* This ASU specifies that when comparative financial statements are presented, the revenue and earnings of the combined entity should be disclosed as though the business combination that occurred during the current year had occurred as of the beginning of the comparable prior annual reporting period only. ASU 2010-29 is effective for business combinations with acquisition dates on or after the beginning of the first annual reporting period beginning on or after December 15, 2010 with early adoption permitted. Management has fully evaluated this guidance, and our adoption did not have a material impact on our unaudited consolidated financial statements.

In December 2010, the FASB issued ASU No. 2010-28, *Intangibles-Goodwill and Other (Topic 350): When to Perform Step 2 of the Goodwill Impairment Test for Reporting Units with Zero or Negative Carrying Amounts.* This ASU requires that reporting units with zero or negative carrying amounts perform Step 2 of the goodwill impairment test if it is more likely than not that a goodwill impairment exists. For public entities, ASU 2010-28 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2010; early adoption is not permitted. Management has fully evaluated this guidance, and the adoption did not materially impact our financial condition, results of operations and disclosures.

In July 2010, the FASB issued ASU No. 2010-20, *Receivables (Topic 310): Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses.* This ASU is effective for disclosures as of the end of a reporting period for interim and annual reporting periods ending on or after December 15, 2010 and for disclosures about activity that occurs during a reporting period for interim and annual reporting periods beginning on or after December 15, 2010. Management has fully considered this guidance, and our adoption did not have a material impact on the level of new disclosures.

In January 2010, the FASB issued ASU No. 2010-06, *Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurements*. This ASU requires new disclosures regarding transfers within the fair value hierarchy and the Level 3 reconciliation, and clarifies existing disclosure requirements. This guidance is effective for interim and annual reporting periods beginning after December 15, 2009, except for the requirement to present the Level 3 roll forward on a gross basis, which is effective for fiscal years beginning after December 15, 2010. Management has fully considered this guidance when determining the fair value and related disclosures of our financial assets and liabilities as of March 31, 2011, and our adoption did not have a material impact on our unaudited consolidated financial statements.

In October 2009, the FASB issued ASU No. 2009-13, *Revenue Recognition (Topic 605): Multiple-Deliverable Revenue Arrangements*, which provides guidance on whether multiple deliverables exist and how arrangement consideration should be measured and allocated to the separate units of accounting in the arrangement. ASU 2009-13, which is effective for fiscal years beginning on or after June 15, 2010 was effective for us on January 1, 2011. Management has fully evaluated this guidance, and the adoption did not materially impact our financial condition, results of operations and disclosures.

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CAREER EDUCATION CORPORATION AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In thousands, except per share amounts)

4. DISCONTINUED OPERATIONS

As of March 31, 2011, the results of operations for schools that have ceased operations or were sold are presented within discontinued operations.

Results of Discontinued Operations

Combined summary of unaudited results of operations for our discontinued operations for the quarters ended March 31, 2011 and 2010 were as follows:

	For the Quarters Ended March 31, 2011	For the Quarters Ended March 31, 2010
	(Dollars in thousands)	
Revenue	$	$ 243
Loss before income tax	$ (846)	$ (2,468)
Income tax benefit	(296)	(544)
Loss from discontinued operations, net of tax	$ (550)	$ (1,924)

Assets and Liabilities of Discontinued Operations

Assets and liabilities of discontinued operations on our unaudited consolidated balance sheets as of March 31, 2011 and December 31, 2010 include the following:

	March 31, 2011	December 31, 2010
	(Dollars in thousands)	
Assets:		
Current assets:		
Receivables, net	79	89
Prepaid expenses		1,294
Deferred income tax assets	4,786	4,786
Other current assets		573
Total current assets	4,865	6,742
Non-current assets:		
Deferred income tax assets	17,043	17,043
Other assets, net	1,932	2,012
Total assets of discontinued operations	$ 23,840	$ 25,797

Liabilities:		
Current Liabilities:		
Accounts payable	$ 108	$ 329
Accrued payroll and related benefits		216
Accrued expenses	957	1,753
Remaining lease obligations	13,843	12,802
Total current liabilities	14,908	15,100
Non-current liabilities:		
Remaining lease obligations	32,839	37,576
Total liabilities of discontinued operations	$ 47,747	$ 52,676

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CAREER EDUCATION CORPORATION AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In thousands, except per share amounts)

Remaining Lease Obligations

A number of the campuses that ceased operations have remaining lease obligations that expire during the years 2011 to 2019. A liability is recorded representing the fair value of the remaining lease obligation at the time in which the space is no longer being utilized. Changes in our future remaining lease obligations, which are reflected within current and non-current liabilities of discontinued operations on our unaudited consolidated balance sheets, for our discontinued operations for the quarters ended March 31, 2011 and 2010, were as follows:

	Balance, Beginning of Period	Charges Incurred (1)	Net Cash Payments	Balance, End of Period
		(Dollars in thousands)		
For the quarter ended March 31, 2011	$ 50,378	$ (1,173)	$ (2,523)	$ 46,682
For the quarter ended March 31, 2010	$ 71,163	$ 192	$ (5,560)	$ 65,795

(1) Includes charges for newly vacated spaces and subsequent adjustments for accretion, revised estimates, and variances between estimated and actual charges, net of any reversals for terminated lease obligations.

5. FINANCIAL INSTRUMENTS

Cash and Cash Equivalents and Investments

Cash and cash equivalents and investments from our continuing operations consist of the following as of March 31, 2011 and December 31, 2010:

	March 31, 2011 (Dollars in thousands)			
		Gross Unrealized		
	Cost	Gain	(Loss)	Fair Value
Cash and cash equivalents:				
Cash	$ 125,717	$	$	$ 125,717
Money market funds	113,168	376		113,544
Total cash and cash equivalents	238,885	376		239,261
Short-term investments (available-for-sale):				
U.S. Treasury bills	159,827	15	(11)	159,831
Total cash and cash equivalents and short-term investments	$ 398,712	$ 391	$ (11)	$ 399,092

Long-term investments:

Municipal bonds	$ 11,750	$	$ (439)	$ 11,311

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CAREER EDUCATION CORPORATION AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In thousands, except per share amounts)

		December 31, 2010 (Dollars in thousands)		
		Gross Unrealized		
	Cost	Gain	(Loss)	Fair Value
Cash and cash equivalents:				
Cash	$ 176,250	$	$	$ 176,250
Money market funds	112,936	296		113,232
Total cash and cash equivalents	289,186	296		289,482
Short-term investments (available-for-sale):				
U.S. Treasury bills	159,672	7	(8)	159,671
Total cash and cash equivalents and short-term investments	$ 448,858	$ 303	$ (8)	$ 449,153
Long-term investments:				
Municipal bonds	$ 11,750	$	$ (439)	$ 11,311

In the table above, unrealized holding losses as of March 31, 2011 relate to cash equivalents and short-term investments that have been in a continuous unrealized loss position for less than one year. The table also includes unrealized holding losses that relate to our long-term investments in municipal bonds, which are auction rate securities (ARS). When evaluating our investments for possible impairment, we review factors such as the length of time and extent to which fair value has been less than the cost basis, the financial condition of the investee, and our ability and intent to hold the investment for a period of time that may be sufficient for anticipated recovery in fair value. The decline in the fair value of our municipal bonds through March 31, 2011 is attributable to the continued lack of activity in the ARS market, exposing these investments to liquidity risk.

Included in cash and cash equivalents above are amounts related to certain of our European campuses that are operated on a not-for-profit basis. The cash and cash equivalents related to these schools have restrictions which require that the funds be utilized for these particular not-for-profit schools. The amount of cash and cash equivalents of our not-for-profit schools with restrictions was $57.8 million and $58.5 million at March 31, 2011 and December 31, 2010, respectively. Restrictions on cash balances have not affected our ability to fund operations.

Money market funds. Money market funds are mutual funds that invest in lower risk securities and generate low yields. Such funds maintain clear investment guidelines and seek to limit credit, market and liquidity risks.

Municipal bonds: Municipal bonds represent debt obligations issued by states, cities, counties, and other governmental entities, which earn federally tax-exempt interest. ARS generally have stated terms to maturity of greater than one year. We classify investments in ARS as non-current on our unaudited consolidated balance sheets within other assets. Auctions can fail when the number of sellers of the security exceeds the buyers for that particular auction period. In the event that an auction fails, the interest rate resets at a rate based on a formula determined by the individual security. The ARS for which auctions have failed continue to accrue interest and are auctioned on a set interval until the auction succeeds, the issuer calls the securities, or they mature. As of March 31, 2011, we have determined these investments are at risk for impairment due to the nature of the liquidity of the market over the past year. Cumulative unrealized losses as of March 31, 2011, amount to $0.4 million and are reflected within other comprehensive income as a component of stockholders equity. We believe this impairment is temporary, as we do not intend to sell the investments and it is unlikely we will be required to sell the investments before recovery of their amortized cost basis.

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CAREER EDUCATION CORPORATION AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In thousands, except per share amounts)

U.S. Treasury bills: Debt obligations issued by the U.S. government that pay interest at maturity. U.S. Treasury bills are traded at discounts to par value and mature in one year or less.

Fair Value Measurements

The fair value measure of accounting for financial instruments establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value. These tiers include: Level 1, defined as observable inputs such as quoted prices in active markets; Level 2, defined as inputs other than quoted prices in active markets that are either directly or indirectly observable; and Level 3, defined as unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions.

As of March 31, 2011, we held investments that are required to be measured at fair value on a recurring basis. These investments (available-for-sale) consist of U.S. Treasury bills that are publicly traded and for which market prices are readily available.

As of March 31, 2011, we also held investments in ARS, which are classified as available-for-sale and reflected at fair value. The auction events for these investments have been failing for over two years. The fair values of these securities are estimated utilizing a discounted cash flow analysis as of March 31, 2011. These analyses consider, among other items, the collateralization underlying the security investments, the creditworthiness of the counterparty, the timing of expected future cash flows, and the expectation of the next time the security is expected to have a successful auction. These securities were also compared, when possible, to other observable market data with similar characteristics.

Investments measured at fair value on a recurring basis subject to the disclosure requirements issued by the FASB ASC under Topic 820 *Fair Value Measurements and Disclosures* at March 31, 2011 and December 31, 2010, were as follows:

	As of March 31, 2011 (Dollars in thousands)			
	Level 1	Level 2	Level 3	Total
Municipal bonds	$	$	$ 11,311	$ 11,311
U.S. Treasury bills	159,831			159,831
Totals	$ 159,831	$	$ 11,311	$ 171,142

	As of December 31, 2010 (Dollars in thousands)			
	Level 1	Level 2	Level 3	Total
Municipal bonds	$	$	$ 11,311	$ 11,311
U.S. Treasury bills	159,671			159,671
Totals	$ 159,671	$	$ 11,311	$ 170,982

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CAREER EDUCATION CORPORATION AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In thousands, except per share amounts)

The following table presents our assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) as defined in FASB ASC Topic 820 at March 31, 2011:

	(Dollars in thousands)	
Balance at December 31, 2010	$	11,311
Unrealized gain/(loss)		
Balance at March 31, 2011	$	11,311

Credit Agreement

As of March 31, 2011, we had letters of credit totaling $5.2 million outstanding under our $185.0 million U.S. Credit Agreement. Credit availability under our U.S. Credit Agreement as of March 31, 2011, was $179.8 million.

6. STUDENT RECEIVABLES

Student receivables represent funds owed to the Company in exchange for the educational services that have been provided to a student. Student receivables are reflected net of an allowance for doubtful accounts and net of deferred tuition revenue. Student receivables, net are reflected on our unaudited consolidated balance sheets as components of both current and non-current assets.

Generally, a student receivable balance is written off once it reaches greater than 90 days past due. Although we analyze past due receivables, it is not practical to provide an aging of our non-current student receivable balances as a result of the methodology utilized in determining our earned student receivable balances. Student receivables are recognized on our unaudited consolidated balance sheets as they are deemed earned over the course of a student s program and/or term, and therefore cash collections are not applied against specifically dated transactions.

We do not accrue interest on past due student receivables; interest is recorded only upon collection. Interest rates are determined at the time a payment plan is extended to a student.

Our standard student receivable allowance estimation methodology considers a number of factors that, based on our collection experience, we believe have an impact on our repayment risk and ability to collect student receivables. Changes in the trends in any of these factors may impact our estimate of the allowance for doubtful accounts. These factors include, but are not limited to: internal repayment history, repayment practices of previous extended payment programs and information provided by a third-party institution who previously offered similar extended payment programs, changes in the current economic, legislative or regulatory environments and credit worthiness of our students. These factors are monitored and assessed on a regular basis. Overall, our allowance estimation process for student receivables is validated by trending analysis and comparing estimated and actual performance. The repayment risk associated with student receivables under extended payment plans is generally higher than those not related to extended payment plans; as such, the allowance for doubtful accounts for these student receivables as a percentage of outstanding student receivables is higher.

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CAREER EDUCATION CORPORATION AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In thousands, except per share amounts)

Student Receivables under Extended Payment Plans

The Company had previously provided extended payment plans to certain students to help ensure that they could complete their educational programs. The Company has discontinued providing extended payment plans to new students. The Company expects to recognize an additional $10 million in student receivables, net of an allowance of approximately $7 million over the remainder of 2011 related to extended payment plans provided to existing students. The Company expects any additional amounts recognized in 2012 related to its extended payment plans to be immaterial to its overall results of operations. As of March 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 $6.3 million.

Recourse Loan Agreements

Previously, we had recourse loan agreements with Sallie Mae and Stillwater National Bank and Trust Company (Stillwater) which required us to repurchase loans originated by them to our students after a certain period of time. Our recourse loan agreement with Stillwater was terminated on April 29, 2007. Our recourse loan agreement with Sallie Mae ended on March 31, 2008.

Outstanding net recourse loan receivable balances for continuing operations as of March 31, 2011 and December 31, 2010 were $3.4 million and $3.5 million, respectively. These receivables are reported under non-current assets as a component of student receivables, net within the unaudited consolidated balance sheets.

Student Receivables Valuation Allowance

Changes in our current and non-current receivables allowance for the quarters ended March 31, 2011 and 2010 were as follows:

	Balance, Beginning of Period	Charges to Expense [1]	Amounts Written-off	Balance, End of Period
	(Dollars in thousands)			
For the quarter ended March 31, 2011	$ 90,944	$ 17,306	$ (20,969)	$ 87,281
For the quarter ended March 31, 2010 [2]	$ 53,334	$ 26,375	$ (15,482)	$ 64,227

(1) Charges to expense include an offset for recoveries of amounts previously written off of $3.3 million for each of the quarters ended March 31, 2011 and 2010.

(2) For the quarter ended March 31, 2010, amount includes pretax expense of $8.1 million related to an increase in reserve rates applied to outstanding receivable balances attributable to our extended payment plan programs and our previously terminated recourse loan programs.

Fair Value Measurements

The carrying amount reported in our unaudited consolidated balance sheets for the current portion of student receivables approximates fair value because of the nature of these financial instruments as they generally have short maturity periods. It is not practicable to estimate the fair value of the non-current portion of student receivables, since observable market data is not readily available, and no reasonable estimation methodology exists.

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CAREER EDUCATION CORPORATION AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In thousands, except per share amounts)

7. COMMITMENTS AND CONTINGENCIES

Our estimated accrual for legal fees and settlements is presented within other current liabilities on our unaudited consolidated balance sheets. This accrual decreased approximately $37.9 million from $43.5 million at December 31, 2010 to $5.6 million at March 31, 2011. The Company paid $40.0 million during the first quarter 2011 related to the settlement of a certain legal matter that had been incurred and reflected as a liability as of December 31, 2010.

Litigation

We are, or were, a party to the following legal proceedings that are outside the scope of ordinary routine litigation incidental to our business. Due to the inherent uncertainties of litigation, we cannot predict the ultimate outcome of these matters. An unfavorable outcome of any one or more of these matters could have a material adverse impact on our business, results of operations, cash flows and financial position.

Student Litigation

Amador, et al. v. California Culinary Academy and Career Education Corporation; Adams, et al. v. California Culinary Academy and Career Education Corporation. On September 27, 2007, Allison Amador and 36 other current and former students of the California Culinary Academy (CCA) filed a complaint in the California Superior Court in San Francisco. Plaintiffs plead their original complaint as a putative class action and allege four causes of action: fraud; constructive fraud; violation of the California Unfair Competition Law; and violation of the California Consumer Legal Remedies Act. Plaintiffs contend that CCA made a variety of misrepresentations to them, primarily oral, during the admissions process. The alleged misrepresentations relate generally to the school s reputation, the value of the education, the competitiveness of the admissions process, and the students employment prospects upon graduation, including the accuracy of statistics published by CCA.

On April 3, 2008, the same counsel representing plaintiffs in the Amador action filed the Adams action on behalf of Jennifer Adams and several other unnamed members of the Amador putative class. The Adams action also is styled as a class action and is based on the same allegations underlying the Amador action and attempts to plead the same four causes of action pled in the Amador action. The Adams action has been deemed related to the Amador action and is being handled by the same judge. The Adams action has been stayed.

Plaintiffs filed a Fourth Amended Complaint on or about March 19, 2010, alleging the same causes of action, but included a new claim based on violations of the California Education Code, which was recently reinstated by the California legislature. Defendants filed a motion to dismiss this new claim. The motion was taken under submission by the Court and has not been ruled on.

In October 2010, the parties reached agreement on all the material terms of a settlement and executed a formal settlement agreement as of November 1, 2010. The settlement is subject to court approval. The monetary component of the settlement involves payment by the Company of approximately $40.8 million to pay claims by all students who enrolled in CCA and/or graduated from CCA from September 28, 2003 through October 8, 2008. The payment includes plaintiffs attorneys fees and certain expenses to be incurred in connection with the implementation of the settlement. During 2010, the Company recorded a pretax charge of $40.8 million which represents our best estimate of the loss related to this matter. The settlement has been preliminarily approved by the court and the parties are in the process of implementing the settlement terms. The Company disbursed $40.0 million during the current quarter, as required by the terms of the agreement.

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Lilley, et al. v. Career Education Corporation, et al. On February 11, 2008, a class action complaint was filed in the Circuit Court of Madison County, Illinois, naming as defendants Career Education Corporation and Sanford-Brown College, Inc. Plaintiffs filed amended complaints on September 5, 2008 and September 24, 2010. The five plaintiffs named in the amended complaint are former students who attended a medical assistant program at Sanford-Brown College located in Collinsville, Illinois. The class is alleged to be all persons who enrolled in that program since July 1, 2003. The amended class action complaint asserts claims for alleged violations of the Illinois Private Business and Vocational Schools Act, for alleged unfair conduct and deceptive conduct under the Illinois Consumer Fraud and Deceptive Business Practices Act, as well as common law claims of fraudulent misrepresentation and fraudulent omission.

In the amended complaint filed on September 24, 2010, the plaintiffs allege that the school s enrollment agreements contained false and misleading information regarding placement statistics, job opportunities and salaries and that Admissions, Financial Aid and Career Services personnel used standardized materials that allegedly contained false and/or deceptive information. Plaintiffs also allege that the school misused a standardized admissions test to determine program placement when the test was not intended for that purpose; failed to provide allegedly statutorily required loan repayment information; and misrepresented the transferability of credits. Plaintiffs seek compensatory, treble and punitive damages, disgorgement and restitution of all tuition monies received from medical assistant students, attorneys fees, costs and injunctive relief.

Defendants filed a motion to dismiss the amended complaint on October 20, 2010. On October 27, 2010 the Court granted defendants motion with respect to plaintiffs fraudulent omission claims. The Court denied the motion with respect to the statutory claims under the Private Schools Act and the Illinois Consumer Fraud Act and the common law fraudulent misrepresentation claim.

By Order dated December 3, 2010, the Court certified a class consisting of all persons who attended SBC in Collinsville, Illinois and enrolled in the Medical Assisting Program during the period from July 1, 2003 through November 29, 2010. This class consists of approximately 2,300 members. Defendants filed a petition for leave to appeal the trial court s class certification order to the Fifth District Court of Appeals. On February 10, 2011, the Fifth District Court of Appeals granted defendants petition for leave to appeal. While that appeal is pending, all proceedings in the Circuit Court are stayed.

Because of the many questions of fact and law that have already arisen and that may arise in the future, the outcome of this legal proceeding is uncertain at this point. Based on information available to us at present, we cannot reasonably estimate a range of potential loss, if any, for this action because of the inherent difficulty in assessing the appropriate measure of damages and the number of potential class members who might be entitled to recover damages, if we were to be found liable. Accordingly, we have not recognized any liability associated with this action.

Surrett, et al. v. Western Culinary Institute, Ltd. and Career Education Corporation. On March 5, 2008, original named plaintiffs Shannon Gozzi and Megan Koehnen filed a complaint in Portland, Oregon in the Circuit Court of the State of Oregon in and for Multnomah County. Plaintiffs filed the complaint individually and as a putative class action and alleged two claims for equitable relief: violation of Oregon s Unlawful Trade Practices Act (UTPA) and unjust enrichment. Plaintiffs filed an amended complaint on April 10, 2008, which added two claims for money damages: fraud and breach of contract. Plaintiffs allege that Western Culinary Institute, Ltd. (WCI) made a variety of misrepresentations to them, relating generally to WCI s placement statistics, students employment prospects upon graduation from WCI, the value and quality of an education at WCI, and the amount of tuition students could expect to pay as compared to salaries they may earn after

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graduation. WCI subsequently moved to dismiss certain of plaintiffs claims under Oregon s UTPA; that motion was granted on September 12, 2008. Shannon Gozzi subsequently withdrew as a named plaintiff and former named plaintiff Meghan Koehnen s claims have been dismissed. Jennifer Schuster became a plaintiff, and when Ms. Koehnen s claims were dismissed, she became the sole named plaintiff. The parties completed written discovery on class issues. On February 5, 2010, the Court entered a formal Order granting class certification on part of plaintiff s UTPA and fraud claims purportedly based on omissions, denying certification of the rest of those claims and denying certification of the breach of contract and unjust enrichment claims. The class consists of students who enrolled at WCI between March 5, 2006 and March 1, 2010, excluding those who dropped out or were dismissed from the school for academic reasons. The class consists of approximately 2,600 members.

Because Ms. Schuster was not a member of the certified class (she enrolled before March 5, 2006), Plaintiff s counsel recently substituted in a new class representative for her named Nathan Surrett pursuant to a stipulation among the parties which provided, among other things, that WCI retains the right to challenge whether the new class representative is adequate (with Plaintiff retaining the burden of proof on that issue). Plaintiffs filed a Fifth Amended Complaint on December 7, 2010, which included individual and class allegations by Mr. Surrett. Class notice is expected to be sent out shortly. The parties are currently engaged in merits discovery.

Because of the many questions of fact and law that have already arisen, and that may arise in the future, the outcome of this legal proceeding is uncertain at this point. Based on information available to us at present, we cannot reasonably estimate a range of potential loss, if any, for this action because of the inherent difficulty in assessing the appropriate measure of damages and the number of class members who might be entitled to recover damages, if we were to be found liable. Accordingly, we have not recognized any liability associated with this action.

Vasquez, et al. v. California School of Culinary Arts, Inc. and Career Education Corporation. On June 23, 2008, a putative class action lawsuit was filed in the Los Angeles County Superior Court entitled *Daniel Vasquez and Cherish Herndon v. California School of Culinary Arts, Inc. and Career Education Corporation*. The plaintiffs allege causes of action for fraud, constructive fraud, violation of the California Unfair Competition Law and violation of the California Consumer Legal Remedies Act. The plaintiffs allege improper conduct in connection with the admissions process during the alleged class period. The alleged class is defined as including all persons who purchased educational services from California School of Culinary Arts, Inc. (CSCA), or graduated from CSCA, within the limitations periods applicable to the herein alleged causes of action (including, without limitation, the period following the filing of the action). Defendants successfully demurred to the constructive fraud claim and the Court has dismissed it. Defendants also successfully demurred to plaintiffs claims based on alleged violations of California s former Educational Reform Act.

The plaintiffs have filed an amended complaint, in which they assert the same claims against the Company, but have added claims against approximately 15 student lenders. The plaintiffs allege the student lenders are contractually liable for damages incurred as a result of conduct by the Company by virtue of certain holder clauses included in their loan documents.

On or about April 19, 2011, the same attorneys representing the plaintiffs in the Vasquez action filed a separate complaint in the Los Angeles County Superior Court, alleging essentially the same claims against the Company and the lenders on behalf of approximately 300 individual students. Plaintiffs seek compensatory and punitive damages, disgorgement and restitution of tuition monies received, attorneys fees, costs and injunctive relief. The Company has not responded to the new complaint and the court has ordered that it be stayed pending a decision in Vasquez on a motion for class certification.

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The parties are engaged in class discovery and the Court is expected to set a hearing on class discovery during the second or third quarter of 2011.

Because of the many questions of fact and law that have already arisen and that may arise in the future, the outcome of these legal proceedings is uncertain at this point. Based on information available to us at present, we cannot reasonably estimate a range of potential loss, if any, for these actions because our possible liability depends on an assessment of the appropriate measure of damages, if we were to be found liable and whether, in the case of the Vasquez action, a class is certified and, if so, the size of any such class. Accordingly, we have not recognized any liability associated with these actions.

False Claims Act

False Claims Act Lawsuit. On July 28, 2009, we were served with a complaint filed in the U.S. District Court for the Northern District of Georgia, Atlanta Division. The complaint was originally filed under seal on July 14, 2008 by four former employees of the Dunwoody campus of our American InterContinental University on behalf of themselves and the federal government. The case is captioned *United States of America, ex rel. Melissa Simms Powell, et al. v. American InterContinental University, Inc., a Georgia Corporation, Career Education Corp., a Delaware Corporation and John Doe Nos. 1-100.*

On July 27, 2009, the Court ordered the complaint unsealed and we were notified that the U.S. Department of Justice declined to intervene in the action. When the federal government declines to intervene in a False Claims Act action, as it has done in this case, the private plaintiffs may elect to pursue the litigation on behalf of the federal government and, if they are successful, receive a portion of the federal government s recovery. The action alleges violations of the False Claims Act, 31 U.S.C. § 3729(a)(1) and (2), and promissory fraud, including allegedly providing false certifications to the federal government regarding compliance with certain provisions of the Higher Education Act and accreditation standards. On September 1, 2009, we filed a motion to dismiss all of the claims which motion was denied by the Court in its Order of June 2, 2010. We filed our response on December 6, 2010, and the discovery phase of the lawsuit is presently underway.

Because of the many questions of fact and law that may arise, the outcome of this legal proceeding is uncertain at this point. Based on information available to us at present, we cannot reasonably estimate a range of loss for this action because the complaint does not seek a specified amount of damages and it is unclear how damages would be calculated. Moreover, the case presents novel legal issues and discovery is in its early stages. Accordingly we have not recognized any liability associated with this action.

Telephone Consumer Protection Act Litigation

Fahey, et al v. Career Education Corporation; Rojas, et al v. Career Education Corporation. On August 4, 2010, a putative class action lawsuit was filed in the Circuit Court of Cook County, Illinois, by Sheila Fahey alleging that she had received an unauthorized text message advertisement in violation of the Telephone Consumer Protection Act. On September 3, 2010, CEC removed this case to the U.S. District Court for the Northern District of Illinois. On November 22, 2010, CEC filed a motion to dismiss the *Fahey* case. That motion is still pending. Judge James B. Zagel has stayed any further activity on the Fahey case until resolution of an appeal in the Seventh Circuit of a case involving issues similar to those raised in the Motion to Dismiss. On August 18, 2010, the same counsel representing plaintiffs in the *Fahey* action filed a similar lawsuit in the U.S. District Court for the Northern District of Illinois on behalf of Sergio Rojas alleging similar violations of the TCPA. Rojas, like Fahey, seeks class certification of his claims. The alleged classes are defined to include

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persons who received unauthorized text message advertisements from CEC. Rojas and Fahey each seek an award trebling the statutory damages to the class members, together with costs and reasonable attorneys fees. Judge Virginia M. Kendall has established a deadline of September 30, 2011 for the parties to conclude all fact discovery in the Rojas case. All other matters in the case, including additional briefing on Plaintiff s Motion for Class Certification, will be addressed following the conclusion of fact discovery. Judge Kendall has denied Plaintiff s Motion to Consolidate the Rojas and Fahey cases.

Because of the many questions of fact and law that may arise, the outcome of this legal proceeding is uncertain at this point. Based on information available to us at present, we cannot reasonably estimate a potential range of loss for this action because these matters are in their early stages, and involve many unresolved issues of fact and law. Moreover, we do not know the number of class members, if any, entitled to recovery. Accordingly, we have not recognized any liability associated with these actions.

Wage & Hour Litigation

Kelly, et al. v. Career Education Corporation, et al. On or about December 20, 2010, Edward J. Kelly, Jon Pizzica, and Christopher Steinbrunn (Plaintiffs) filed a collective action complaint in the United States District Court for the Western District of Pennsylvania against Career Education Corporation (CEC) alleging that CEC had violated the Fair Labor Standards Act (FLSA) by failing to pay Plaintiffs for all of the hours that they worked, including overtime hours (the *Kelly* lawsuit). Plaintiffs formerly worked as Admissions Representatives at Le Cordon Bleu Institute of Culinary Arts, Inc. in Pittsburgh, Pennsylvania (LCB-Pittsburgh). The *Kelly* lawsuit is brought on behalf of all current and former Admissions Representatives at all of CEC s culinary arts strategic business units for the period commencing three years prior to the filing of the collective action complaint to the present. In their collective action complaint, Plaintiffs in the *Kelly* lawsuit seek unspecified back overtime pay, attorneys fees and costs, and liquidated and/or compensatory damages. On March 8, 2011, the Court granted conditional collective action certification in the *Kelly* lawsuit as to Admissions Representatives who worked at LCB-Pittsburgh only. Notice of the *Kelly* lawsuit has not been disseminated to the class. As of April 20, 2011, 11 other former Admissions Representatives who worked at LCB-Pittsburgh joined the litigation by filing consent to join forms with the Court.

On April 19, 2011, CEC, without admitting any liability, reached an agreement in principle to settle both the *Kelly* lawsuit and a related Pennsylvania state court lawsuit. The settlement will require the consolidation of the lawsuits and approval by the Court. The settlement will resolve the consolidated lawsuit on a collective action and class action basis. As a result of the settlement, and following the execution thereof, both the *Kelly* and the related state court lawsuit will be dismissed with prejudice. The Company estimates the loss related to this matter at $0.2 million.

Other Litigation

In addition to the legal proceedings and other matters described above, we are also subject to a variety of other claims, suits, and investigations that arise from time to time in the ordinary conduct of our business, including, but not limited to, claims involving students or graduates and routine employment matters. While we currently believe that such claims, individually or in aggregate, will not have a material adverse impact on our financial position, cash flows, or results of operations, the litigation and other claims noted above are subject to inherent uncertainties, and management s view of these matters may change in the future. Were an unfavorable final outcome to occur in any one or more of these matters, there exists the possibility of a material adverse impact on our business, reputation, financial position, cash flows, and the results of operations for the period in which the effect becomes probable and reasonably estimable.

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Accrediting Body and State and Federal Regulatory Matters

The Florida campuses of Sanford-Brown Institute received a notice on November 5, 2010 from the State of Florida Office of the Attorney General that it has commenced an investigation into possible unfair and deceptive trade practices at these schools. The notice includes a subpoena to produce documents and detailed information for the time period from January 1, 2007 to the present about a broad spectrum of business practices at such schools. The Florida campuses of Sanford-Brown Institute have responded to the subpoena and are cooperating with the Florida Attorney General in the investigation. The Florida Attorney General s website indicates that the Attorney General is conducting similar investigations of several other postsecondary education companies operating schools located in Florida.

AIU s accrediting agency, the Higher Learning Commission of the North Central Association of Colleges and Schools (HLC) will conduct a focused visit to evaluate AIU s transition to a new undergraduate structure which was introduced in February 2010. The focused visit is currently scheduled for September 19 20, 2011.

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

Due to their participation in Title IV programs, our schools and universities are subject to periodic program reviews by ED for the purpose of evaluating an institution s compliance with Title IV requirements, identifying any liabilities to ED caused by errors in compliance, and improving future institutional capabilities.

As previously disclosed, ED conducted a program review of AIU in November 2009. On July 14, 2010, AIU received a copy of ED s program review report, which is a preliminary report of ED s findings from its program review. The Program Review Report identified six findings, two of which were deemed to be systemic findings by ED s program review team. These two findings relate to AIU s policy for determining student attendance in online courses for purposes of determining such students enrollment status, withdrawal dates and associated timing respecting the return of unearned Title IV funds. AIU disagrees with these two findings and is contesting the program review team s proposed determination of what constitutes appropriate documentation or verification of online academic activity. The remaining four 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.

An ED program review report for Gibbs College Livingston, NJ (school closed) and final determination letters for Katharine Gibbs School New York, NY (school closed) and Le Cordon Bleu College of Culinary Arts, Austin, TX are currently pending. The program review report and/or final determination letter will, generally, cover a school s main campus and any branch campuses. We are committed to resolving all issues identified in connection with these program reviews to ED s satisfaction and ensuring that our schools operate in compliance with all ED regulations.

Our schools and universities are also subject to periodic audits by various regulatory bodies, including the U.S. Department of Education s Office of Inspector General (OIG). The OIG audit services division commenced a compliance audit of CTU in June 2010, covering the period July 1, 2009 to June 30, 2010, to determine whether CTU has policies and procedures to ensure that CTU administers Title IV and other federal program funds in accordance with applicable federal regulations. The OIG audit is ongoing.

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While we believe that our schools operate in substantial compliance with applicable statutes and regulations, we cannot predict the outcome of these matters, and any unfavorable outcomes could have a material adverse effect on our business, results of operations, cash flows and financial position.

8. INCOME TAXES

The determination of the annual effective tax is based upon a number of significant estimates and judgments, including the estimated annual pretax income in each tax jurisdiction in which we operate and the ongoing development of tax planning strategies during the year. In addition, our provision for income taxes can be impacted by changes in tax rates or laws, the finalization of tax audits and reviews, as well as other factors that cannot be predicted with certainty. As such, there can be significant volatility in interim tax provisions.

The following is a summary of our income tax provision and effective tax rate for continuing operations:

	For the Quarters Ended March 31,	
	2011	2010
	(Dollars in thousands)	
Pretax income	$ 115,446	$ 89,403
Provision for income taxes	$ 41,861	$ 32,257
Effective tax rate	36.3%	36.1%

We estimate that it is reasonably possible that the liability for unrecognized tax benefits for a variety of uncertain tax positions will decrease by up to $2.4 million in the next twelve months as a result of the completion of various tax audits currently in process and the expiration of the statute of limitations in several jurisdictions. Based upon a change in circumstances for one of our uncertain tax positions, $10.1 million of our gross unrecognized tax benefits was reclassified to other non-current liabilities on our unaudited consolidated balance sheet as of March 31, 2011. The income tax rate for the quarter ended March 31, 2011 does not take into account the possible reduction of the liability for unrecognized tax benefits. The impact of a reduction to the liability will be treated as a discrete item in the period the reduction occurs. We recognize interest and penalties related to unrecognized tax benefits in tax expense. As of March 31, 2011, we had accrued $3.9 million as an estimate for reasonably possible interest and accrued penalties.

Our tax returns are routinely examined by federal, state and foreign tax authorities and these audits are at various stages of completion at any given time. The Internal Revenue Service completed its examination of our U.S. income tax returns through our tax year ended December 31, 2007.

9. STOCK REPURCHASE PROGRAM

During the quarter ended March 31, 2011, we repurchased 4.1 million shares of our common stock for approximately $89.9 million at an average price of $21.69 per share. As of March 31, 2011, approximately $200.5 million was available under our authorized stock repurchase program to repurchase outstanding shares of our common stock. Stock repurchases under this program may be made on the open market or in privately negotiated transactions from time to time, depending on various 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. The repurchase of shares of our common stock reduces the amount of cash available to pay cash dividends to our stockholders. We have never paid cash dividends on our common stock.

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On November 15, 2010, we entered into a stock repurchase plan established in accordance with Rule 10b5-1 of the Securities Exchange Act of 1934, as amended (the 1934 Act), in connection with our previously authorized stock repurchase program. A Rule 10b5-1 plan allows a company to repurchase its shares at times when it otherwise might be unable to do so under the 1934 Act s insider trading rules. This stock repurchase plan facilitated purchases of our common stock under our previously authorized stock repurchase program. Purchases of common stock under this plan were subject to specified parameters and certain price and volume restraints as established in the plan. Of the 4.1 million shares repurchased during the first quarter of 2011, 3.7 million shares of our common stock for $79.9 million at an average price of $21.47 per share were purchased by our designated broker during January 2011.

10. SHARE-BASED COMPENSATION

Overview of Share-Based Compensation Plans

The Career Education Corporation 2008 Incentive Compensation Plan (the 2008 Plan) authorizes awards of stock options, stock appreciation rights, restricted stock, restricted stock units, deferred stock, performance units, annual incentive awards, and substitute awards. Any shares of CEC common stock that are subject to awards of stock options or stock appreciation rights payable in shares will be counted as 1.0 share for each share granted for purposes of the aggregate share limit and any shares of CEC common stock that are subject to any other form of award will be counted as 1.67 shares for each share granted for purposes of the aggregate share limit. As of March 31, 2011 there were approximately 4.7 million shares of common stock available for future share-based awards under the 2008 Plan.

As of March 31, 2011, we estimate that pretax compensation expense of $24.2 million will be recognized over the next four years for all unvested share-based awards that have been granted to participants, including both stock options and shares of restricted stock. We expect to satisfy the exercise of stock options and future distribution of shares of restricted stock by issuing new shares of common stock or by using treasury shares.

Stock Options. The exercise price of stock options granted under each of the plans is equal to the fair market value of our common stock on the date of grant. Employee stock options generally become exercisable 25% per year over a four-year service period beginning on the date of grant and expire ten years from the date of grant, unless an earlier expiration date is set at the time of the grant. Non-employee directors stock options expire ten years from the date of grant and generally become exercisable as follows: one-third on the grant date, one-third on the first anniversary of the grant date, and one-third on the second anniversary of the grant date. Both employee stock options and non-employee director stock options are subject to possible earlier vesting and termination in certain circumstances. Generally, if a plan participant terminates his or her employment for any reason other than by death or disability during the vesting period, he or she forfeits the right to unvested stock option awards. Since the inception of the plans, grants of stock options have only been subject to the service conditions discussed previously. No stock option grants have included performance or market conditions or other factors that affect stock option vesting.

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Stock option activity during the quarter ended March 31, 2011, under all of our plans was as follows:

	Options (Options in thousands)	Weighted Average Exercise Price
Outstanding as of December 31, 2010	3,575	$ 28.29
Granted	454	21.80
Exercised	(52)	13.39
Forfeited	(12)	26.15
Cancelled	(18)	45.68
Outstanding as of March 31, 2011	3,947	$ 27.67
Exercisable as of March 31, 2011	2,743	$ 29.10

Restricted Stock. Shares of restricted stock generally become vested either three years after the date of grant or 25% per year over a four-year service period beginning on the date of grant. Generally, if a plan participant terminates his or her employment for any reason other than by death or disability during the vesting period, he or she forfeits the right to the unvested shares of restricted stock. The vesting of shares of restricted stock is subject to possible acceleration in certain circumstances. Certain of the shares of restricted stock that we have granted to plan participants are subject to performance conditions that, even if the requisite service period is met, may reduce the number of shares of restricted stock that vest at the end of the requisite service period or result in all shares being forfeited. These awards are referred to as performance-based restricted stock.

The following table summarizes information with respect to all outstanding shares of restricted stock under our plans during the quarter ended March 31, 2011:

	Shares (Shares in thousands)	Weighted Average Grant-Date Fair Value Per Share
Outstanding as of December 31, 2010	2,189	$ 23.17
Granted	850	21.81
Vested	(709)	14.49
Forfeited	(94)	27.90
Outstanding as of March 31, 2011	2,236	$ 25.21

Change in Control Provisions

Each of the share-based awards granted under the 2008 Plan, the 1998 Employee Plan and the Directors Plan, including stock options and shares of restricted stock, are subject to change in control provisions that accelerate vesting of outstanding equity awards under the plans under certain circumstances. Under these Plans and related amendments, a change in control generally is deemed to have occurred if, among other things, any corporation, person, or other entity (other than CEC, a majority-owned subsidiary of CEC or any of CEC s subsidiaries, or an employee benefit plan sponsored or maintained by CEC), including a group as defined in Section 13(d)(3) of the Exchange Act, becomes the beneficial owner of our common stock representing more than 20% under our 1998 Employee Plan and Directors Plan (35% for any awards held by members of our

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Board of Directors and executives subject to reporting under Section 16 of the Exchange Act), or 35% under our 2008 Plan, of the combined voting power of our then outstanding common stock. Generally, under the 1998 Plans, accelerated vesting of outstanding awards occurs upon a change in control; under the 2008 Plan, which is a double-trigger plan, accelerated vesting occurs when an award holder is terminated involuntarily not for cause within two years after a change in control of the Company.

In January 2011, the acceleration provisions of the 1998 Employee Plan and the Directors Plan were triggered, as the Company s stock repurchase activities reduced total shares outstanding and resulted in increasing Blum Capital Partners LLP s holdings to more than 20% of the combined voting power of our outstanding common stock. As a result of this event, we recognized accelerated share-based compensation expense of approximately $0.6 million in January 2011 due to the accelerated vesting of those unvested options and restricted stock awards subject to the 20% threshold under our 1998 Plan. Subsequent to this accelerated vesting event, all outstanding unvested equity awards under the Company s incentive stock plans are subject to the 35% threshold.

As of March 31, 2011, Blum Capital Partner s LLP was the only holder of 20% or more of the combined voting power of our outstanding stock.

11. WEIGHTED AVERAGE COMMON SHARES

The weighted average numbers of common shares used to compute basic and diluted net income per share for the quarters ended March 31, 2011 and 2010 were as follows:

	For the Quarters Ended March 31,	
	2011	2010
	(Shares in thousands)	
Basic common shares outstanding	76,139	82,298
Common stock equivalents	614	818
Diluted common shares outstanding	76,753	83,116

Included in our common shares outstanding are options to purchase shares of our common stock that were not included in the computation of diluted net income per share. These shares were excluded because the options exercise prices were greater than the average market price of our common stock during the periods, and, therefore, the effect would have been anti-dilutive. The shares that would have had an anti-dilutive effect on our diluted net income per share for the quarters ended March 31, 2011 and 2010 were as follows:

	For the Quarters Ended March 31,	
	2011	2010
	(Shares in thousands)	
Options that would have had an anti-dilutive effect	2,529	2,308

In addition to the common stock issued upon the exercise of employee stock options and the granting of restricted stock awards, we issued less than 0.1 million shares of our common stock upon the purchase of common stock pursuant to our employee stock purchase plan during each of the quarters ended March 31, 2011 and 2010.

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CAREER EDUCATION CORPORATION AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In thousands, except per share amounts)

12. SEGMENT REPORTING

The Company analyzes performance and makes decisions based on the allocation of resources, and as a result, in accordance with FASB ASC Topic 280 *Segment Reporting*, we determined that the following reporting segments would be reported as of January 1, 2011: CTU, AIU, Health Education, Culinary Arts, Art & Design and International. This change in reporting segments was a result of changes in the organizational structure. This will result in no change to our previously reported Health Education, Culinary Arts and International segments. Our previously reported University segment will now be divided into three components: CTU, AIU and Art & Design. All prior period results have been recast to present results on a comparable basis.

As a result of the organization restructure, we reassigned the goodwill balances to each reporting unit in accordance with FASB ASC Topic 350 *Intangibles Goodwill and Other*. Of the $87.6 million goodwill balance previously reported for the University reporting unit, $46.2 million was assigned to CTU and $41.4 million was assigned to AIU. In addition, in accordance with FASB ASC Paragraph 350-20-35-30, we performed an analysis and concluded there was no goodwill impairment for either CTU or AIU following the reallocation. There were no changes to Art & Design s goodwill balance, as it was and remains a stand-alone reporting unit for goodwill impairment testing purposes.

As a result of the organizational restructure, the Company now has six reporting segments. All prior period results have been recast to reflect our reporting segments as of March 31, 2011. The reporting segments are described below.

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

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

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.

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

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CAREER EDUCATION CORPORATION AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In thousands, except per share amounts)

Segment performance is evaluated by the Company and its chief operating decision maker based on operating income. Adjustments to reconcile segment results to consolidated results are included under the caption Corporate and Other, which primarily includes unallocated corporate activity and eliminations.

Summary financial information by reporting segment is as follows:

	Revenue		Operating Income (Loss)	
	For the Quarters Ended March 31,		For the Quarters Ended March 31,	
	2011	2010	2011	2010
	(Dollars in thousands)			
CTU	$ 118,065	$ 110,999	$ 36,288	$ 29,406
AIU	104,274	116,778	27,617	32,798
Health Education	116,309	103,864	11,630	11,008
Culinary Arts	91,773	92,754	13,767	8,205
Art & Design	64,600	62,887	10,395	6,504
International	48,476	42,338	14,115	13,432
Corporate and Other [1]	(136)	(194)	(577)	(11,907)
Total	$ 543,361	$ 529,426	$ 113,235	$ 89,446

	Total Assets as of [2]	
	March 31, 2011	December 31, 2010
	(Dollars in thousands)	
CTU [3]	$ 75,210	$ 52,566
AIU [3]	85,785	112,159
Health Education	278,989	283,558
Culinary Arts	332,624	339,848
Art & Design	84,518	91,514
International	270,717	269,723
Corporate and Other	347,516	396,714
Discontinued Operations	23,840	25,797
Total	$ 1,499,199	$ 1,571,879

(1) First quarter of 2011 includes a $7.0 million insurance recovery related to previously settled legal matters. The prior year quarter included a $2.4 million pretax lease termination charge related to our former corporate headquarters and a $4.1 million pretax charge for an increase in the allowance for doubtful accounts related to our previously terminated recourse loan program.

(2) Total assets do not include the following intercompany activity: receivable or payable activity between schools and corporate and investments in subsidiaries.

(3) During the first quarter of 2011 and in conjunction with the segment reorganization, $27.9 million of the goodwill balance attributable to the former University reporting unit was reclassified from AIU to CTU, in accordance with FASB ASC Topic 350 *Intangibles Goodwill and Other.*

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CAREER EDUCATION CORPORATION AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In thousands, except per share amounts)

13. TOTAL COMPREHENSIVE INCOME

Total comprehensive income is composed of the change in cumulative translation adjustments and unrealized gains and losses on available-for-sale investments net of the effects of income taxes. The following table presents the components of comprehensive income (loss) for the periods presented:

	For the Quarters Ended March 31,	
	2011	2010
	(Dollars in thousands)	
Net income	$ 73,035	$ 55,222
Other comprehensive income (loss):		
Foreign currency translation adjustments	8,243	(7,757)
Unrealized gains/(losses) on investments, net of tax	85	(159)
Total comprehensive income	$ 81,363	$ 47,306

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ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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

Overview

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

The Company analyzes performance and makes decisions based on the allocation of resources, and as a result, in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 280 *Segment Reporting*, we determined that the following reporting segments would be reported as of January 1, 2011: CTU, AIU, Health Education, Culinary Arts, Art & Design and International. This change in reporting segments was a result of changes in the organizational structure. This will result in no change to our previously reported Health Education, Culinary Arts and International segments. Our previously reported University segment will now be divided into three components: CTU, AIU and Art & Design.

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

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

2011 First Quarter Overview

We continue to experience the impact of a weak economic environment and the decline in new student starts and average student population. As we await the release of final regulations related to our industry, we continue

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to examine our operating strategy and maximize cost efficiencies without sacrificing the high-quality education experience we offer to our students. Our mission of changing lives through education remains at the forefront of our strategic decisions for 2011 and beyond.

Our new Culinary Arts operating model that was announced in the fourth quarter 2010 is proceeding as expected. We believe this model, which focuses on our 12-month certificate program, will appeal to an even broader range of potential students and allows us to respond to the current and potential changes in the regulatory environment. Because our certificate program has a lower tuition rate than our degree programs, we believe students will need less financing support outside of their eligibility to participate in the Title IV Programs. As a result, the Company discontinued offering extended payment plans to students within Culinary Arts. In addition, the Company no longer offers extended payment plan financing to our new students within our other operating segments.

In January 2011, we substantially completed the changes to our infrastructure in our effort to reduce costs in the corporate organization and optimize the utilization of our shared services organization. These changes allow us to better serve our internal customers and consolidate like processes and functions under common leadership.

Health Education continues to expand its footprint while maintaining focus on the lifelong learning process for its students. CEC now has 39 Health Education campuses, up from 24 in 2008, and we expect to open up to three additional U.S. campuses in 2011. Our online forum for Health Education students encourages continuous learning both during school and after graduation, and aims to provide better student placement outcomes at an affordable cost to the student. In March 2011, we announced that George K. Grayeb resigned from his position as senior vice president of Health Education to pursue other opportunities. Thomas O Donnell, vice president of operations for new school development for Health Education, has assumed interim leadership of this operating segment.

Current quarter revenue of $543.4 million was 2.6% or $13.9 million higher as compared to the prior year quarter, primarily driven by a 2% increase in student population. Operating income increased $23.8 million, or 26.6%, to $113.2 million, and operating margin increased approximately 390 basis points to 20.8%, as compared to operating income of $89.4 million and operating margin of 16.9% for the prior year quarter. Operating income for the current quarter included a $7.0 million insurance recovery related to previously settled legal matters. Operating income for the prior year quarter included an $8.1 million charge for an increase in the allowance for doubtful accounts related to certain extended payment plan programs, as well as $3.7 million in lease termination charges incurred in connection with the move to our new campus support center.

Total student population increased 2% due to increases in Health Education, Culinary Arts, International and CTU, while new student starts decreased 14%, as compared to the prior year quarter. The decrease in new student starts was driven by declines in all of our reporting segments except International, most notably within AIU, CTU and Art & Design. The weak economic environment, negative publicity in our sector and increased competitiveness for prospective students drove a continuation of the trends that began in the second half of 2010; student population increasing at a slower pace and new student starts declining as compared to prior periods. We remain committed to improving student outcomes and are focusing on several initiatives aimed toward better preparing our students for success. Within CTU and AIU, these initiatives include our Student Orientation and Academic Readiness (SOAR) program, which better prepares our students for their entire course of study, lower student-to-teacher ratios and a change in credit load structure.

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CONSOLIDATED RESULTS OF OPERATIONS

The summary of selected financial data table below should be referenced in connection with a review of the following discussion of our results of operations for the quarters ended March 31, 2011 and 2010.

	For the Quarters Ended March 31,				% Change 2011 vs. 2010
	2011	% of Total Revenue	2010	% of Total Revenue	
	(Dollars in thousands)				
TOTAL REVENUE	$ 543,361		$ 529,426		2.6%
OPERATING EXPENSES					
Educational services and facilities	168,901	31.1%	159,162	30.1%	6.1%
General and administrative:					
Advertising	74,379	13.7%	76,139	14.4%	-2.3%
Admissions	51,793	9.5%	57,270	10.8%	-9.6%
Administrative	97,381	17.9%	104,356	19.7%	-6.7%
Bad debt	17,306	3.2%	26,375	5.0%	-34.4%
Total general and administrative expense	240,859	44.3%	264,140	49.9%	-8.8%
Depreciation and amortization	20,366	3.7%	16,678	3.2%	22.1%
OPERATING INCOME	113,235	20.8%	89,446	16.9%	26.6%
PRETAX INCOME	115,446	21.2%	89,403	16.9%	29.1%
PROVISION FOR INCOME TAXES	41,861	7.7%	32,257	6.1%	29.8%
Effective tax rate	*36.3%*		*36.1%*		
INCOME FROM CONTINUING OPERATIONS	$ 73,585	13.5%	$ 57,146	10.8%	28.8%
LOSS FROM DISCONTINUED OPERATIONS, net of tax	(550)	-0.1%	(1,924)	-0.4%	-71.4%
NET INCOME	**$ 73,035**	**13.4%**	**$ 55,222**	**10.4%**	**32.3%**

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

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

Quarter Ended March 31, 2011 as Compared to Quarter Ended March 31, 2010

Revenue

Total revenue increased $13.9 million, or 2.6% from the prior year quarter driven primarily by a 2% increase in student population. Health Education, CTU, International and Art & Design experienced increases in revenue as compared to the prior quarter. New student starts decreased 14% as we experienced a decline in the majority of our segments, most notably within AIU, CTU and Art & Design, due to a reduction in new student interest as well as decreased student retention as compared to the prior year quarter.

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Educational Services and Facilities Expense

Educational services and facilities expense increased $9.7 million, or 6.1% as compared to the prior year quarter. The increase is mainly a result of an increase in academics expense, as Health Education and International invested in the expansion and support of academic functions to support the increase in student populations. As a percentage of revenue, educational services and facilities expense increased 1.0% as compared to the prior year quarter.

General and Administrative Expense

General and administrative expense decreased $23.3 million, or 8.8%, and decreased 5.6% as a percentage of revenue as compared to the prior year quarter. All expenses within this category decreased, with the largest decreases attributed to lower bad debt and administrative expenses.

Bad debt expense incurred by each of our reportable segments during the quarters ended March 31, 2011 and 2010 was as follows:

	For the Quarters Ended March 31,			
	2011	As a % of Segment Revenue	2010	As a % of Segment Revenue
	(Dollars in thousands)			
Bad debt expense by segment:				
CTU	$ 2,111	1.8%	$ 1,657	1.5%
AIU	2,668	2.6%	2,759	2.4%
Health Education	2,196	1.9%	2,094	2.0%
Culinary Arts	7,563	8.2%	12,461	13.4%
Art & Design	2,436	3.8%	2,740	4.4%
International	283	0.6%	175	0.4%
Corporate and Other	49	N/A	4,489	N/A
Total bad debt expense	**$ 17,306**	**3.2%**	**$ 26,375**	**5.0%**

Bad debt expense decreased $9.1 million as compared to the prior year quarter, primarily within Culinary Arts and Corporate and Other. The prior year quarter includes an $8.1 million increase in the allowance for doubtful accounts associated with certain extended payment plan programs. This increase resulted from lower repayment history experienced on these programs. Of the $8.1 million expense, $4.1 million is reflected within Corporate and Other and related to our previously terminated recourse loan program. These rates are continually reviewed for appropriateness based upon repayment history.

Administrative expense represented 17.9% of total revenue in the current quarter, as compared to 19.7% in the prior year quarter. The decrease from the prior year quarter is mainly due to the $7.0 million insurance recovery received in the current quarter related to previously settled legal matters.

Operating Income

Operating income increased $23.8 million, or 26.6% as compared to the prior year quarter, as we experienced increased profitability within CTU, Culinary Arts, Art & Design, International and Health Education. During the first quarter 2011, we recorded a $7.0 million insurance recovery within Corporate and Other related to previously settled legal matters. The prior year quarter included $3.7 million in lease termination charges incurred in connection with the move to our new campus support center and an $8.1 million charge for an increase in the allowance for doubtful accounts related to our extended payment plan programs. The increase in revenue, coupled with lower general and administrative costs, drove the operating margin increase of 390 basis points from the prior year quarter.

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SEGMENT RESULTS OF OPERATIONS

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

	For the Quarters Ended March 31, (Dollars in thousands)						
	REVENUE			OPERATING INCOME (LOSS)		OPERATING MARGIN	
	2011	2010	% Change	2011	2010	2011	2010
CTU	$ 118,065	$ 110,999	6.4%	$ 36,288	$ 29,406	30.7%	26.5%
AIU	104,274	116,778	-10.7%	27,617	32,798	26.5%	28.1%
Health Education	116,309	103,864	12.0%	11,630	11,008	10.0%	10.6%
Culinary Arts	91,773	92,754	-1.1%	13,767	8,205	15.0%	8.8%
Art & Design	64,600	62,887	2.7%	10,395	6,504	16.1%	10.3%
International	48,476	42,338	14.5%	14,115	13,432	29.1%	31.7%
Corporate and Other	(136)	(194)		(577)	(11,907)		
Total	**$ 543,361**	**$ 529,426**	**2.6%**	**$ 113,235**	**$ 89,446**	**20.8%**	**16.9%**

	NEW STUDENT STARTS For the Quarters Ended March 31,			STUDENT POPULATION As of March 31,		
	2011	2010	% Change	2011	2010	% Change
CTU	7,440	8,840	-16%	29,100	28,900	1%
AIU	8,660	11,260	-23%	22,500	25,000	-10%
Health Education	9,140	9,380	-3%	31,300	28,200	11%
Culinary Arts	3,560	3,860	-8%	13,500	12,200	11%
Art & Design	2,240	2,770	-19%	11,900	12,800	-7%
International	790	710	11%	10,800	9,500	14%
Total	**31,830**	**36,820**	**-14%**	**119,100**	**116,600**	**2%**

Quarter Ended March 31, 2011 as Compared to the Quarter Ended March 31, 2010

CTU. Current quarter revenue increased 6.4% as compared to the prior year quarter driven by a 1% increase in student population due to a higher student population at the beginning of the period. CTU experienced lower new student start growth, as our institutions experienced declining student enrollments. As a result, new student starts declined approximately 16% as compared to the prior year quarter.

Current quarter operating income increased by $6.9 million, and operating margin increased from 26.5% to 30.7% as compared to the prior year quarter. Total operating expenses remained relatively stable with the prior year quarter amount, as we continued to leverage our operating model.

AIU. Current quarter revenue decreased by 10.7% as compared to the prior year quarter, driven by a 23% decrease in new student starts, as well as a 10% decrease in student population. We believe that increased competition for prospective students and negative publicity across the industry were primary factors contributing to the decline in new student starts as compared to the prior year quarter.

Current quarter operating income decreased by $5.2 million, as the decrease in revenue was only partially offset by the overall decrease in operating expenses. Academics expense increased as compared to the prior year quarter, as we invested in curriculum changes to ensure better student outcomes.

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Health Education. Revenue increased $12.4 million, or 12.0% as compared to the prior year quarter. The increase in revenue is due to an 11% increase in student population. New student starts declined 3% as compared to the prior year, as new student starts due to our start-up campuses were more than offset with weakening student interest across the industry.

Health Education s operating income increased by 5.7% as compared to the prior year quarter. An increase in academics expense to support the increase in student population, as well as an increase in advertising expense, was more than offset by the increase in revenue as compared to the prior year quarter.

We continue to focus on increasing our geographic presence within Health Education by starting up new campuses. During 2010, we opened a total of six campuses. We expect to continue to expand our Health Education footprint by opening up to three additional U.S. campuses in 2011. Of the six campuses opened in 2010, four are considered to be start-up campuses since they have been instructing students for less than one year. Excluding the impact of our start-up campuses, revenue increased approximately $9.5 million, or 9.1%, and operating income increased by $3.6 million, or 29.5%, as compared to the prior year quarter.

Culinary Arts. Current quarter revenue decreased approximately $1.0 million as compared to the prior year quarter. This decrease was mainly due to a decrease in revenue per student primarily due to a combination of the increase in the number of grants offered to students, as well as a change in the mix of students within our certificate program versus the associate program. The certificate program generates a lower revenue per student as compared to the associate program. The 11% increase in student population as compared to the prior year quarter was offset with an 8% decrease in new student starts as compared to the prior year quarter.

Culinary Arts operating income increased $5.6 million, or 67.8% as compared to the prior year quarter, as we continued to effectively manage our general and administrative expenses and experienced lower bad debt expense. The prior year quarter included a $3.2 million increase to the allowance for doubtful accounts associated with certain extended payment plan programs.

Art & Design. Art & Design s current quarter revenue increased $1.7 million, or 2.7% as compared to the prior year quarter due to an increase in revenue per student. The increase in revenue was partially offset with a 7% decrease in student population, as well as a 19% decrease in new student starts.

Operating income increased $3.9 million, or 59.8% as compared to the prior year quarter. Total operating expenses decreased as compared to the prior year quarter, particularly for admissions and advertising, due to effective cost management.

International. Current quarter revenue increased $6.1 million, or 14.5% as compared to the prior year quarter. The increase was driven by a 14% increase in student population and an 11% increase in new student starts. Approximately $1.8 million of the revenue during the current quarter was attributable to the acquisition of IUM which occurred in April 2010.

Operating income increased $0.7 million, or 5.1% as compared to the prior year quarter. The increase in revenue was partially offset with higher operating expenses, primarily academics, as we continue our investment associated with higher levels of accreditation, as well as the support of the growing student population. In addition, we invested additional resources for advertising to capitalize on our marketing strategy.

Corporate and Other. This category includes unallocated costs that are incurred on behalf of the entire Company. Corporate and Other costs decreased $11.3 million, or 95.2% as compared to the prior year quarter. The current quarter included a $7.0 million insurance recovery related to previously settled legal matters and a $1.4 million gain on the sale of real estate property. The prior year quarter results included $4.1 million of bad debt expense incurred from our previously terminated recourse loan program and $2.4 million of lease termination charges related to our former corporate headquarters.

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SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES

A detailed discussion of the accounting policies and estimates that we believe are most critical to our financial condition and results of operations that require management s most subjective and complex judgments in estimating the effect of inherent uncertainties is included under the caption Summary of Significant Accounting Policies and Estimates included in Management s Discussion and Analysis of Financial Condition and Results of Operations of our Annual Report on Form 10-K for the year ended December 31, 2010. Note 2 Significant Accounting Policies of the notes to our consolidated financial statements of our Annual Report on Form 10-K for the year ended December 31, 2010, also includes a discussion of these and other significant accounting policies.

LIQUIDITY, FINANCIAL POSITION AND CAPITAL RESOURCES

As of March 31, 2011, cash, cash equivalents and short-term investments totaled $399.1 million. Our cash flows from operations have historically been adequate to fulfill our liquidity requirements. We finance our operating activities and our organic growth primarily through cash generated from operations. We finance acquisitions primarily through funding from credit facility borrowings and cash generated from operations. We anticipate that we will be able to satisfy the cash requirements associated with, among other things, our working capital needs, capital expenditures and lease commitments through at least the next 12 months primarily with cash generated by operations, existing cash balances, and, if necessary, borrowings under our existing credit agreement.

Included in cash and cash equivalents within our unaudited consolidated balance sheets are amounts related to certain of our European campuses that are operated as not-for-profit schools. The cash and cash equivalents related to these schools have restrictions which require that the funds be utilized for these particular not-for-profit schools. The amount of not-for-profit cash and cash equivalents with restrictions was $57.8 million and $58.5 million at March 31, 2011 and December 31, 2010, respectively. Restrictions on these cash balances have not affected, nor do we believe that such restrictions will affect, our ability to fund our daily operations.

Sources and Uses of Cash

Operating Cash Flows

During the quarters ended March 31, 2011 and 2010, net cash flows provided by operating activities totaled $59.7 million and $53.5 million, respectively.

Our primary source of cash flows from operating activities is tuition collected from our students. Our students finance tuition costs through the use of a variety of funding sources, including, among others, federal loan and grant programs, state grant programs, private loans and grants, school payment plans, private and institutional scholarships and cash payments. For the quarters ended March 31, 2011 and 2010, approximately 84% and 81% respectively, of our U.S. schools cash receipts from tuition payments come from Title IV Program funding.

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

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

Although we anticipate that we will be able to satisfy cash requirements for working capital needs, capital expenditures, and commitments through at least the next year primarily with cash generated by our operations, existing cash balances and, if necessary, borrowings under our existing credit agreement, we are not able to assess the effect of loss contingencies on future cash requirements and liquidity. See Note 7 Commitments and Contingencies of the notes to our unaudited consolidated financial statements for additional discussion of these matters.

Investing Cash Flows

During the quarter ended March 31, 2011, net cash flows used in investing activities totaled $21.8 million compared to net cash flows used in investing activities of $30.3 million for the quarter ended March 31, 2010.

Capital Expenditures. Capital expenditures increased $4.0 million, or 20.4% to $23.8 million during the quarter ended March 31, 2011 from $19.8 million during the quarter ended March 31, 2010. Capital expenditures represented 4.4% and 3.7% of total revenue during the quarters ended March 31, 2011 and 2010, respectively. The increase over the prior year quarter was driven by investments in our new campus support center.

Earnout Payments. Effective August 31, 2009, we acquired the outright rights to the Le Cordon Bleu brand in the education services field for the U.S. and Canada. The purchase price for the brand rights consisted of $25.0 million in cash funded from operations, 3.0 million shares of CEC common stock valued at $71.3 million as of the closing date and an estimated $43.0 million of earnout payments over a 30-month period. As of March 31, 2011, we have made approximately $22.4 million in earnout payments since acquisition of the brand.

Purchases and Sales of Available-for-Sale Investments. Purchases and sales of available-for-sale investments resulted in a net cash outflow of $0.2 million and $5.8 million during the quarters ended March 31, 2011 and 2010, respectively.

Proceeds on the sale of assets. During the current quarter, the Company received $6.3 million in gross proceeds in connection with the sale of property located in California.

Financing Cash Flows

During the quarters ended March 31, 2011 and 2010, net cash flows used in financing activities totaled $89.1 million and $89.4 million, respectively.

Credit Agreement. As of March 31, 2011, we had no outstanding debt under our U.S. Credit Agreement and letters of credit totaling approximately $5.2 million. The credit availability under our U.S. Credit Agreement as of March 31, 2011 was $179.8 million.

Repurchases of Stock. During the quarter ended March 31, 2011, we repurchased approximately 4.1 million shares of our common stock for approximately $89.9 million at an average price of $21.69 per share. During the quarter ended March 31, 2010, we repurchased approximately 3.4 million shares of our common stock for approximately $89.6 million at an average price of $26.71 per share. Repurchases of stock during 2011 and 2010 were funded by cash generated from operating activities and the sale of available-for-sale investments.

As of March 31, 2011, approximately $200.5 million was available under the program to repurchase outstanding shares of our common stock. Stock repurchases under this program may be made on the open market or in privately negotiated transactions from time to time, depending on various 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.

Contractual Obligations

As of March 31, 2011, there were no significant changes to our contractual obligations from December 31, 2010 except as discussed below. We are not a party to any off-balance sheet financing or contingent payment arrangements, nor do we have any unconsolidated subsidiaries.

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On August 31, 2009, we acquired the outright rights to the Le Cordon Bleu brand in the educational services field for the U.S. and Canada. A portion of the purchase price consisted of a 30-month earnout payment based upon Culinary Arts tuition fee revenue estimated at $43.0 million. As of March 31, 2011, $20.9 million of the earnout remained outstanding. Future adjustment to the earnout may be warranted as the actual tuition fee revenue may vary from the current estimate.

Changes in Financial Position March 31, 2011 compared to December 31, 2010

Selected unaudited consolidated balance sheet account changes from December 31, 2010, to March 31, 2011, were as follows:

	As of March 31, 2011	As of December 31, 2010	% Change
	(Dollars in thousands)		
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	$ 239,261	$ 289,482	-17%
Other current assets	21,905	6,246	251%
LIABILITIES AND STOCKHOLDERS EQUITY			
CURRENT LIABILITIES:			
Accrued expenses:			
Payroll and related benefits	47,665	73,608	-35%
Advertising and production costs	27,855	18,846	48%
Income taxes	17,254		100%
Other	52,563	98,113	-46%
NON-CURRENT LIABILITIES:			
Other liabilities	40,570	30,853	31%
STOCKHOLDERS EQUITY:			
Cost of shares in treasury	(95,414)	(191)	NM

Cash and cash equivalents: The decrease is primarily due to the repurchase of our common stock and the payments made under our annual employee incentive bonus plan.

Other current assets: The increase was primarily driven by the reclassification of our tenant improvement allowance of $13.1 million for our new campus support center from long-term to short-term. The Company expects to receive the cash associated with this allowance in the first quarter of 2012.

Accrued expenses Payroll and related benefits: The decrease is mainly due to payment of the 2010 annual employee incentive bonus plan made in the first quarter of 2011.

Accrued expenses Advertising and production costs: The increase is mainly driven by the timing of invoices received and paid at December 31, 2010 versus March 31, 2011.

Accrued expenses Income taxes: The increase is due to the current year estimated tax payment not being due until the second quarter of 2011. In addition, at December 31, 2010, the Company was in a prepaid tax position due to certain tax benefits.

Accrued expenses Other: The decrease is primarily related to payment of a $40.0 million legal settlement recorded in the prior year.

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Non-current liabilities   Other liabilities   The increase is driven by a reclassification in tax reserves from short-term to long-term based upon the timing for ultimate resolution of the matters.

Cost of shares in treasury   The increase in cost of shares in treasury was driven by the repurchase of common shares during the first quarter 2011.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to financial market risks, including changes in interest rates and foreign currency exchange rates. We use various techniques to manage our market risk, including, from time to time, the use of derivative financial instruments. We do not use derivative financial instruments for speculative purposes.

Our municipal bond investments are auction rate securities (ARS) which generally have stated terms to maturity of greater than one year. We classify investments in ARS on our unaudited consolidated balance sheets within other non-current assets. Auctions can fail when the number of sellers of the security exceeds the buyers for that particular auction period. In the event that an auction fails, the interest rate resets at a rate based on a formula determined by the individual security. The ARS for which auctions have failed continue to accrue interest and are auctioned on a set interval until the auction succeeds, the issuer calls the securities, or they mature. As of March 31, 2011, we have determined these investments are at risk for impairment due to the nature of the liquidity of the market over the past year. As a result, we recorded a cumulative unrealized loss reflected within other comprehensive income on our unaudited consolidated balance sheet of approximately $0.4 million as of March 31, 2011.

Interest Rate Exposure

Any outstanding borrowings under our credit agreement bear annual interest at fluctuating rates as determined by the Prime Rate or the London Interbank Offered Rate (LIBOR). As of March 31, 2011 and December 31, 2010, we had no outstanding borrowings under this agreement.

Our investments and debt instruments are recorded at their fair values as of March 31, 2011 and December 31, 2010. We believe that the exposure of our consolidated financial position and results of operations and cash flows to adverse changes in interest rates is not significant.

Foreign Currency Exposure

We are subject to foreign currency exchange exposures arising from current and anticipated transactions denominated in currencies other than the U.S. dollar, and from the translation of foreign currency balance sheet accounts into U.S. dollar balance sheet accounts. Specifically, we are subject to risks associated with fluctuations in the value of the Euro and the British pound versus the U.S. dollar. Our investment in our foreign operations as of March 31, 2011, was not significant to our consolidated financial position.

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

Item 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

We completed an evaluation as of the end of the period covered by this Report under the supervision and with the participation of management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Rule 13a-15(b) of the Securities Exchange Act of 1934, as amended (the Exchange Act). Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of March 31, 2011, our disclosure controls and procedures were effective to provide reasonable assurance that (i) the information required to be disclosed by us in this Report was recorded, processed, summarized, and reported within the time periods specified in the rules and forms provided by the U.S. Securities and Exchange Commission (SEC) and (ii) information required to be disclosed by us in our reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including our principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

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Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting that occurred during the quarter ended March 31, 2011, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Inherent Limitations on the Effectiveness of Controls

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

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

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PART II OTHER INFORMATION

Item 1. Legal Proceedings

Note 7 Commitments and Contingencies to our unaudited consolidated financial statements is incorporated herein by reference.

Item 1A. RISK FACTORS

Risks Related to the Highly Regulated Field in Which We Operate

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

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

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

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

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

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

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

90-10 Rule. Any of our U.S. schools or OPEID s may lose eligibility to participate in Title IV Programs if, on a cash basis, the percentage of the cash receipts derived from Title IV Programs for two consecutive fiscal years is greater than 90%. Under HEA s 90-10 Rule, an OPEID that fails to derive at least 10% of its cash receipts from non-Title IV sources at the end of a fiscal year will be placed on provisional participation status for its next fiscal year. If the OPEID does not satisfy the 90-10 Rule for two consecutive fiscal years, it loses its eligibility to participate in the Title IV Programs for at least two fiscal years. If the OPEID violates the 90-10 Rule and becomes ineligible to participate in Title IV Programs but continues to disburse Title IV Program funds, ED would require repayment of all Title IV Program funds received by it after the effective date of the loss of eligibility. Effective July 1, 2008, the annual unsubsidized Stafford loans available for undergraduate students under the FFEL program increased by $2,000. The HEOA contains temporary 90-10 rule relief from recent increases in the availability and amount of federal aid for, among other things, all unsubsidized Stafford loans disbursed before July 1, 2011, permitting the $2,000 of additional Stafford loan availability to be counted as revenue not derived from Title IV Programs. This increase, together with recent increases in grants from the Pell program and other Title IV loan limits, the expiration of the temporary relief in the HEOA later this year, lack of clarity regarding technical aspects of the rules application to calculation methodology, and economy and budget related reductions in state grant and workforce training programs and other alternative funding sources that have historically helped 90-10 rates could affect our schools ability to continue to meet the 90-10 rule.

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

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

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

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

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

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

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

The Company continues to analyze the final regulations and subsequent informal and formal guidance and clarifications issued by ED with respect to the new regulations to identify and assess potential impacts to our business and to consider and evaluate various strategies to address those potential impacts. These new and pending regulations could have significant impacts on our business. Among the most significant regulatory changes that we have identified to date for our business are:

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

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

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

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

- 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

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

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

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

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

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- recruitment and retention of such employees,
- the motivation and effectiveness of such employees,
- our ability to provide certain forms of compensation to management, impacting recruitment and retention,
- compensation practices for third-parties for Internet marketing and lead-generation services,
- quality of leads generated by these third-party service providers and increased cost for leads,
- our marketing costs, by decreasing marketing efficiency and through increasing costs of recruiting and enrolling prospective students, and
- our revenues, if we are unable to maintain or increase the rate of student enrollments.

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

Our schools offering distance learning are submitting and expect to have completed additional applications for licensures or exemptions for their distance learning programs before June 30, 2011. At this time, the impact and potential costs of these regulations on our schools is uncertain but will increase our costs of regulatory compliance, will likely delay the introduction of new programs and have other material adverse effects on our operations, revenues, results of operations and cash flows.

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

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 pending expiration of temporary relief provided by HEOA for Stafford loans later this year, 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 funds, other ED regulations or interpretations affecting technical aspects of the Rule s application to calculation methodology, the impact on our cohort default rates of servicing performance of ED s preferred servicers for new federal student loans through the federal direct loan program and other student loans permitted to be sold to ED by private lenders, 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.

We cannot predict with certainty the impact of the regulations issued on October 29, 2010 on our operations and cannot predict the outcome of the proposed gainful employment rules that are expected to be issued in mid-2011. Nor can we predict the effect of other legislative or regulatory changes by federal, state or other agencies regulating our education programs or other aspects of our operations, how any resulting regulations will be interpreted or whether we and our schools will be able to comply with these requirements in the future. Any such

actions by other bodies that affect our programs and operations could have a material adverse effect on our student population, our business, financial condition, results of operations and cash flows.

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

Both the U.S. House of Representatives Education and Labor Committee and the U.S. Senate Health, Education, Labor and Pensions Committee (HELP Committee) commenced a series of hearings into the for-profit postsecondary education sector in June 2010, including accreditation matters, student debt, student recruiting, student success and outcomes, and other matters. The U.S. Senate also released a report, Emerging Risk?: An Overview of Growth, Spending, Student Debt and Unanswered Questions in For-Profit Higher Education . The Chairmen of each of these education committees, together with other members of Congress, requested the Government Accountability Office (GAO) to conduct a review and prepare a report with recommendations regarding various aspects of the proprietary sector, including recruitment practices, educational quality, student outcomes, the sufficiency of integrity safeguards against waste, fraud and abuse in federal student aid programs and the degree to which proprietary institutions revenue is composed of Title IV and other federal funding sources. In addition, in August 2010, the HELP Committee requested information from 30 companies operating for-profit schools, including us and other for-profit publicly traded companies providing postsecondary education services. The Company provided documents and information in response to the HELP Committee s request. Based on this requested information, in September 2010 the HELP Committee released a second report, The Return on the Federal Investment in For-Profit Education: Debt Without a Diploma. These activities are not formally related to ED s rulemaking processes. However, these hearings, the requested GAO review and the HELP Committee s information request could affect ED s rulemaking on any remaining program integrity issues, including gainful employment, or lead to additional new ED regulatory requirements, negative media coverage, federal or other investigations of the for-profit postsecondary education industry, or third-party litigation related to information arising from these activities.

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

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

Government and regulatory agencies and third parties may bring actions against us based on alleged violations of the extensive regulatory requirements applicable to us, alleged misrepresentations and other claims. While our compliance programs are extensive and emphasize individual and organizational responsibility for compliance, as well as employing technological compliance controls, it is possible for a single employee to engage in non-compliant behavior or make statements that violate some aspect of the extensive regulations governing our schools and business. Any alleged or other purported misrepresentations or actual infractions could result in (a) imposition of monetary fines or penalties, (b) repayment of funds received under Title IV Programs or state financial aid programs, (c) restrictions on or termination of our U.S. schools eligibility to participate in Title IV Programs or state financial aid programs, (d) limits on, or result in termination of, our U.S. schools operations or ability to grant degrees and certificates, (e) restriction or revocation of our U.S. schools

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accreditations, (f) limit our ability to open new schools or offer new programs, (g) costly adversarial proceedings, or (h) civil or criminal penalties being levied against us or our schools. Any one of these outcomes could materially adversely affect our financial condition, results of operations, and cash flows or result in the imposition of significant restrictions on us and our ability to operate. We may also be required to expend significant resources defending against such claims.

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

While we believe that our schools operate in substantial compliance with applicable statutes and regulations, we cannot predict the outcome of these matters, and any unfavorable outcomes could have a material adverse effect on our business, results of operations, cash flows and financial position. See Note 7 Commitment and Contingencies Accrediting Body and State and Federal Regulatory Matters of the notes to our unaudited consolidated financial statements for further discussion of certain of these matters.

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

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

Additionally, the October 29, 2010 regulations impose requirements on states with regard to their licensure and authorization of postsecondary institutions such as those operated by us. States that do not currently have an approval framework that meets ED requirements will need to modify their authorization and licensure

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requirements in order for them to maintain their eligibility to participate in Title IV Programs. State regulatory changes and approval and exemption processes can be lengthy and may be made more difficult and time consuming as a result of state budget challenges, increased pressures on states caused by new federal regulations and staffing shortages. These new requirements go into effect July 1, 2011, and will require our schools to act quickly to a changing state regulatory landscape as it adapts to the new guidelines imposed by ED.

The October 29, 2010 regulations also require that an institution offering distance learning or online programs secure the approval of those states which require such approval and provide evidence of such approval to ED upon request. These regulations, among other things, may require our schools offering distance education to obtain state approvals or registrations or exemptions from such requirements from additional states which currently or in the future may elect to regulate institutions that enroll the relevant states residents in online programs and courses. State regulatory requirements for online education are inconsistent between states, change frequently and, in some instances, are not clear, and the interpretation of such regulations is generally left to the discretion of state employees or agents and may not be reflected in any written policy. In response to the new ED rules, states that do not presently regulate delivery of online courses and programs may enact legislation or issue regulations or interpret existing regulations to specifically address online educational programs, such as those offered by our schools, may enact or issue regulations impacting the availability of exemptions from licensure in certain states, or otherwise affect our schools operations. Our schools offering distance learning are in the process of submitting and expect to submit additional applications for licensures or exemptions for their distance learning programs by June 30, 2011. We believe there are a lot of other institutions that have or will be submitting similar applications and can not anticipate how quickly the state agencies, some of whom we believe are taxed by resource shortages, will be able to respond to the applications. If one of our schools offering distance learning does not have the appropriate state approvals for its online programs or is not able to customize its policies, procedures or programs to meet select state regulatory requirements, 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 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.

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

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 7 Commitments and Contingencies Accrediting Body and State and Federal Regulatory Matters to our unaudited 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.

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

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

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

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

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

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

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

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

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

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

Risks Related to Our Business

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

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

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

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

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

The Company had previously provided extended payment plans to certain students to help ensure that they could complete their educational programs. The Company has discontinued providing extended payment plans to new students. The Company expects to recognize an additional $10 million in student receivables, net of an allowance of approximately $7 million over the remainder of 2011 related to extended payment plans provided to existing students. The Company expects any additional amounts recognized in 2012 related to its extended payment plans to be immaterial to its overall results of operations. As of March 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 $6.3 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. As of March 31, 2011, the Company is providing an allowance for doubtful accounts as student receivables related to these plans are recorded. The allowance rate being applied is approximately seventy-five percent, 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.

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

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

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

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

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

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

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

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

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

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

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 must balance current student populations and projected growth with appropriate levels of investment in real estate and our online platforms in order to effectively manage capacity.

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

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

If we fail to identify and 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 growth may be slowed and our profitability may be adversely affected.

As part of our growth strategy, we have opened and currently anticipate opening new schools, new branch campuses of our existing schools throughout the U.S. and offering new educational programs. These activities require us to invest in management and 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 to help maintain or accelerate our current growth rate, or to successfully integrate a new school or branch campus. Any failure by us to effectively identify, establish and manage the operations of a new school or branch campus, or lapses in oversight of or maintenance of regulatory compliance or processes, could slow our growth, 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.

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

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

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

Increasingly, prospective employers of students who graduate from our schools demand that their new employees possess appropriate technological skills and also appropriate soft skills, such as communication,

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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.

The loss of our key personnel could harm us.

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

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

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

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

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

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

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

A September 2009 NCES report projects that between 2007 and 2018 enrollments in degree-granting postsecondary institutions increasing in a range from a low alternative projection of 9%, or 19.9 million students, to a high alternative projection of 17%, or 21.3 million students. These projected 11-year growth rates are lower than the 27% increase NCES reported for the 11-year period 1996-2007 of 14.4 million in 1996 to 18.2 million in 2007. Such a decline in the overall growth rate in the postsecondary education sector would result in increased competition for students for our programs and could impact our ability to attract and retain students and affect our growth rate in enrollments. In addition, the ability of our foreign students to obtain visas for our U.S. and our European schools is important to student recruitment. If we cannot attract new students, or develop new curricula to attract prospective students who seek degrees in fields other than our core disciplines, or accommodate changed immigration or visa rules, we may be unable to maintain and increase our student population or achieve our growth strategies, which could have a material adverse effect on our revenues, results of operations, financial condition and market price of our common stock.

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

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

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

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

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

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

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

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

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

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

Our credit agreement limits our ability to take various actions.

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

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

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

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

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

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

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

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

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

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

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

The Americans with Disabilities Act of 1990, or ADA, requires all public accommodations to meet federal requirements for access and use by disabled individuals. Other federal, state, and local laws and regulations also may impose similar or additional accessibility requirements. For example, the Fair Housing Amendments Act of

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1988, or FHAA, requires apartment properties first occupied after March 13, 1991, to be accessible to handicapped persons. Typically, our real estate leases require us to pay any costs necessary to comply with all laws, including these accessibility laws, for our premises, which may include parking areas, restaurants at our culinary schools, dormitory facilities and similar facilities in addition to classroom and office space. In opening new schools or locations and acquiring existing schools, we often must build out the premises to satisfy our classroom needs and must incur the costs associated with accessibility compliance in those construction activities. If any of our premises are not compliant with the ADA or FHAA, we could face fines, litigation by private litigants, and orders to correct any non-complying features.

Risk Related to Our Common Stock

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

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

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

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

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Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

The following table sets forth information regarding purchases made by us of shares of our common stock on a monthly basis during the quarter ended March 31, 2011:

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 (1)	Maximum Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs (1)
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
Total	4,144,703		4,144,703	

(1) As of March 31, 2011, approximately $200.5 million was available under the Company s previously authorized repurchase program. Stock repurchases under this program may be made on the open market or in privately negotiated transactions from time to time, depending on various 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.

Item 6. Exhibits

(a) Exhibits

*10.1	Form of 2011 Restricted Stock/Performance Shares Agreement under the Career Education Corporation 2008 Incentive Compensation Plan (Non-California and Non-Attorneys)
*10.2	Form of 2011 Restricted Stock/Performance Shares Agreement under the Career Education Corporation 2008 Incentive Compensation Plan (California and Attorneys)
31.1	Certification of CEO pursuant to Section 302 of Sarbanes-Oxley Act of 2002
31.2	Certification of CFO pursuant to Section 302 of Sarbanes-Oxley Act of 2002
32.1	Certification of CEO pursuant to Section 906 of Sarbanes-Oxley Act of 2002
32.2	Certification of CFO pursuant to Section 906 of Sarbanes-Oxley Act of 2002
101	The following financial information from our Quarterly Report on Form 10-Q for the first quarter of 2011, filed with the SEC on May 4, 2011, formatted in Extensible Business Reporting Language (XBRL): (i) the Unaudited Consolidated Balance Sheets as of March 31, 2011 and December 31, 2010, (ii) the Unaudited Consolidated Statements of Operations for the three months ended March 31, 2011 and March 31, 2010, (iii) the Unaudited Consolidated Statements of Cash Flows for the three months ended March 31, 2011 and March 31, 2010, and (iv) Notes to Unaudited Consolidated Financial Statements, tagged as blocks of text.

* Management contract or compensatory plan or arrangement required to be filed as an Exhibit on this Form 10-Q.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

CAREER EDUCATION CORPORATION

Date: May 4, 2011	By:	/s/ Gary E. McCullough **Gary E. McCullough** **President and Chief Executive Officer** **(Principal Executive Officer)**
Date: May 4, 2011	By:	/s/ Michael J. Graham **Michael J. Graham** **Executive Vice President and** **Chief Financial Officer** **(Principal Financial Officer)**

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