

CAREER EDUCATION CORP  
Form 10-K  
March 01, 2007

## SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

### FORM 10-K

(Mark One)

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

For the fiscal year ended **December 31, 2006**,

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**  
(State of or other jurisdiction of incorporation or organization)  
**2895 Greenspoint Parkway, Suite 600**  
**Hoffman Estates, Illinois**  
(Address of principal executive offices)

**36-3932190**  
(I.R.S. Employer Identification No.)  
**60169**  
(zip code)

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

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

**Common Stock, \$0.01 par value**

(Title of Class)

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

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

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

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject

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to such filing requirements for the past 90 days. Yes  No

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

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

Large accelerated filer  Accelerated filer  Non-accelerated filer

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

The aggregate market value of the Registrant's voting common stock held by non-affiliates of the Registrant, based upon the \$29.89 per share closing sale price of the Registrant's common stock on June 30, 2006 (the last business day of the Registrant's most recently completed second quarter), was approximately \$1,524,952,231. For purposes of this calculation, the Registrant's directors and executive officers and holders of 10% or more of the Registrant's outstanding shares of voting common stock have been assumed to be affiliates, with such affiliates holding an aggregate of 43,676,968 shares of the Registrant's voting common stock on June 30, 2006.

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

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

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CAREER EDUCATION CORPORATION

FORM 10-K

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## PART I

### Cautionary Note Regarding Forward-Looking Statements

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

## ITEM 1. BUSINESS

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

### BUSINESS OVERVIEW

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

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

- *Culinary Arts:* Programs within this discipline include culinary arts, hotel and restaurant management, and baking and pastry arts.
- *Visual Communication and Design Technologies:* Programs within this discipline include desktop publishing, graphic design, fashion design and merchandising, interior design, graphic imaging, web page design, animation, photography, game design, digital film and media and visual journalism.
- *Health Education:* Programs within this discipline include medical assistance, medical billing and coding, massage therapy, pharmacy technician, diagnostic medical ultrasound, cardiovascular technician, surgical technician, dental assistance, and medical office administration.
- *Business Studies:* Programs within this discipline include business administration, business operations, merchandising management, business administration and marketing, paralegal studies, hospitality management, criminal justice, and education.

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

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

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

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

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

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

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

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

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

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

**Division and Campus Information**

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

**Student Population by Segment:**

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

**Student Population by Age Group:**

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

**Student Population by Core Curricula:**

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

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

**Student Population by Degree Granting Program:**

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

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

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

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

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

**SCHOOL AND CAMPUS INFORMATION TABLE**

School and Campus Locations	Website	Year School Founded	Date Acquired/Opened(1)	Principal Curricula(2)
<i>ACADEMY DIVISION:</i>				