

# Career Education Corporation

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William Blair Growth Stock Conference

*June 19, 2008*

**Gary E. McCullough**

**PRESIDENT AND CHIEF EXECUTIVE OFFICER**

**CAREER EDUCATION CORPORATION**

# Safe Harbor

*Except for the historical and present factual information contained herein, the matters set forth in this presentation, including statements identified by words such as "anticipate," "believe," "plan," "expect," "intend," "project," "will," and similar expressions, are forward-looking statements as defined in Section 21E of the Securities Exchange Act of 1934, as amended. These statements are based on information currently available to us and are subject to various risks, uncertainties and other factors that could cause our actual growth, results of operations, performance and business prospects, and opportunities to differ materially from those expressed in, or implied by, these statements. Except as expressly required by the federal securities laws, we undertake no obligation to update such factors or to publicly announce the results of any of the forward-looking statements contained herein to reflect future events, developments, or changed circumstances or for any other reason. These risks and uncertainties, the outcome of which could materially and adversely affect our financial condition and operations, include, but are not limited to, the following: risks associated with unfavorable changes in the cost or availability of financing, including alternative loans, for our students; potential higher bad debt expense or reduced revenue associated with requiring students to pay more of their educational expenses while in school; increased competition; the effectiveness of our regulatory compliance efforts; future financial and operational results, including the impact of the impairment of goodwill and other intangible assets; risks related to our ability to comply with accrediting agency requirements or obtain accrediting agency approvals; risks related to our ability to comply with, and the impact of changes in, legislation and regulations that affect our ability to participate in student financial aid programs; costs, risks, and effects of legal and administrative proceedings and investigations and governmental regulations, and class action and other lawsuits; costs, risks and uncertainties associated with our company-wide restructuring, including risks and uncertainties associated with changes in management and reporting responsibilities; costs and difficulties related to the integration of acquired businesses; risks related to our ability to manage and continue growth; risks related to the sale or teach-out of any campuses; risks related to general economic conditions including credit market conditions and other risk factors relating to our industry and business and the factors discussed in our Annual Report on Form 10-K for the year ended December 31, 2007, and from time to time in our other reports filed with the Securities and Exchange Commission.*

# Agenda

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- **Company Overview**
- **Progress Against Strategic Choices**
- **Performance Expectations**
- **Summary**

# Career Education Overview

**2007 Revenue: \$1.7 Billion**

**Second Largest For-Profit Post Secondary Education Company**

Approximately  
90,000 Students



Associate,  
Bachelor's,  
Master's and  
Doctorate  
Degrees;  
Certificates



Curriculum:  
Business, Visual  
Communications  
& Design, Culinary  
Arts, Health  
Education,  
Information  
Technology



Over 75  
On-ground  
Campuses, 22  
States and  
4 Countries



3 Online  
Campuses  
without  
Geographic  
Boundaries

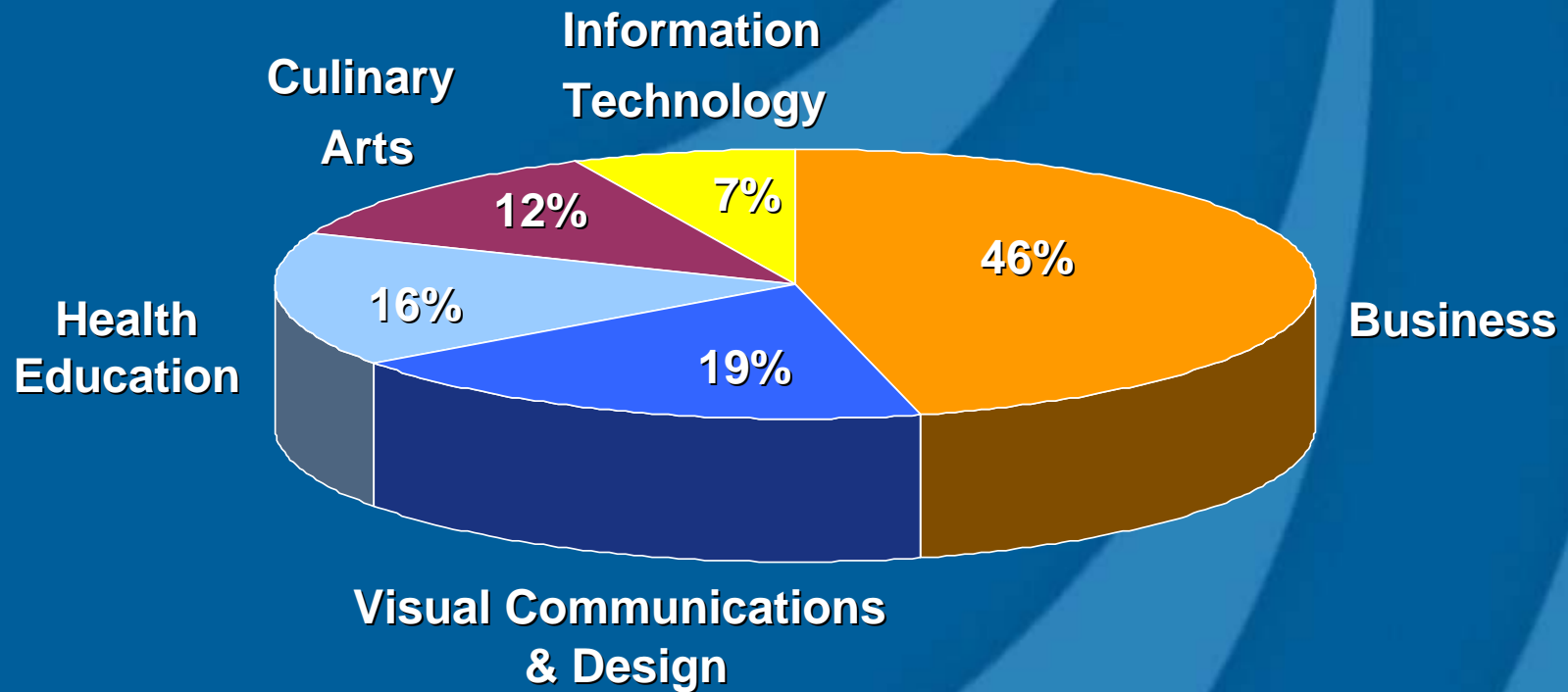
# Student Profile

	On-Ground	Online	Total CEC
Under 21	26%	3%	18%
21-30	49%	40%	47%
Over 30 yrs	25%	57%	35%
Bachelor, Master, Doctorate	35%	35%	39%
Associate	37%	65%	45%
Certificate	28%	N/A	16%

\* As of March 31, 2008

# Program Profile

*Students pursue a variety of program offerings through both on-ground and online delivery methods*



\* As of March 31, 2008

## 2004-2007: Organizational Challenges

- **Legal – Class Action, SEC, DOJ**
- **Regulatory – DOE, SACS**
- **High Fixed and Variable Costs**
- **Underperforming Schools**
- **Slowing Population Growth**

# Developed Key Strategic Choices

- **Grow Our Core Educational Institutions**
- **Improve Academic and Operational Effectiveness**
- **Enter New Markets**
- **Build Our Reputation and External Relationships**
- **Grow and Develop Our People**

# Progress To Date

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## Strategic Choice

## Progress

- ***Grow Our Core Educational Institutions***
  - Launched 50 + new programs and concentrations in 2007
  - Opened four new campuses
- ***Improve Academic and Operational Effectiveness***
  - Developed mission, strategy, five-year plan
  - Announced teach-out of 11 campuses
  - Centralized select operations
  - Implemented new organizational structure
- ***Enter New Markets***
  - Integrated Istituto Marangoni acquisition

# Progress To Date

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## Strategic Choice

- *Build Our Reputation and External Relationships*
  
  
  
  
  
  
  
  
  
  
- *Grow and Develop Our People*

## Progress

- Resolved certain securities, shareholder derivative and class action litigation
- Resolved Justice Department inquiries with no action taken against Company
- American InterContinental University removed from probation by SACS
- SEC investigation completed with no action taken against the company
  
  
- Hired new senior leaders
- Introduced new Management Incentive Plan

# Plans for Future Growth

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- **University:** Rebuild Online Population and Improve On-ground Performance
- **Culinary Arts:** Redesign Business to Enable Increased Student Funding Flexibility
- **Health Education:** Consolidate Brands, Higher-End Curriculum, New Locations
- **Art & Design:** Grow On-ground and Blended Programs
- **International:** Expand Current Properties

**Mike Graham**

**EXECUTIVE VICE PRESIDENT AND CHIEF FINANCIAL OFFICER**

**CAREER EDUCATION CORPORATION**

# Performance Expectations

2008-2010

**Population**

6 to 8% CAGR

**Revenue**

6 to 8% CAGR

**Margin**

Low to Mid-teens

**New Locations**

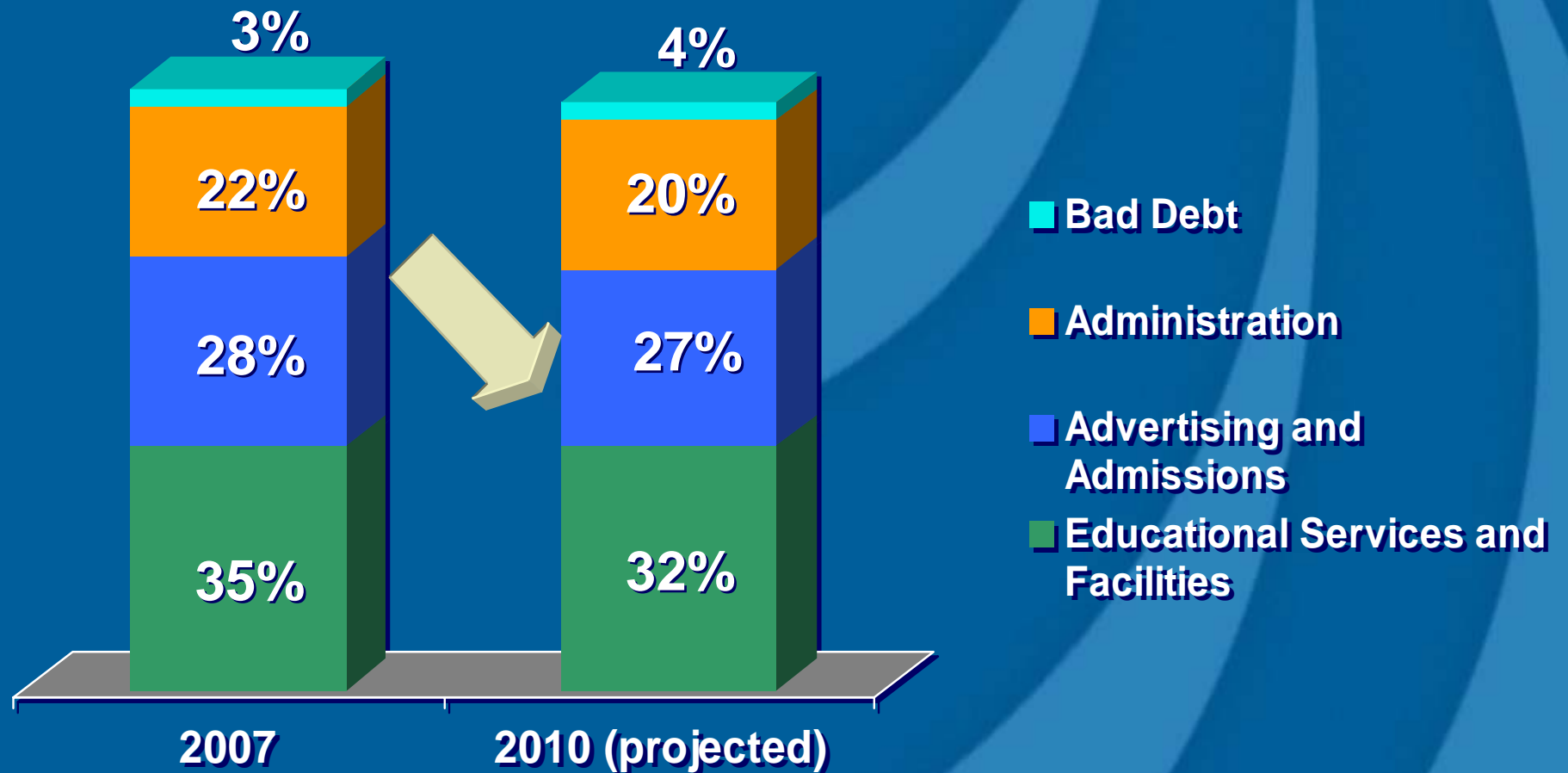
3 to 5 per Year

**Teach-outs**

Announced Teach-outs Complete  
by 2010

# Operating Leverage Improvement 2007-2010

## Operating Expenses

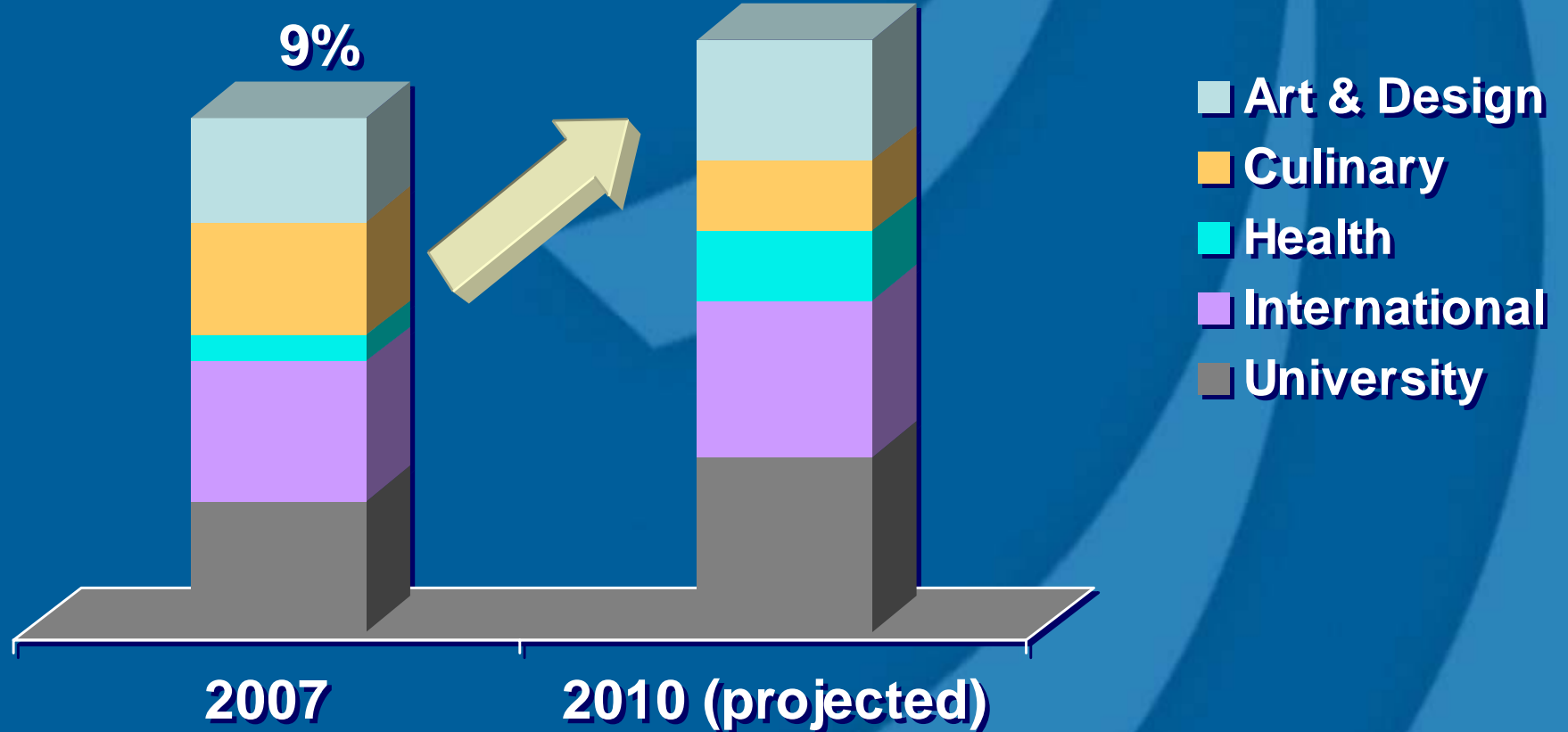


\* Excludes Transitional Schools Division Results

# Operating Leverage Improvement 2007-2010

## Operating Profit Margin

Low to Mid Teens



\* Excludes Transitional Schools Division Results

# Transitional Schools

## College Segment

Lehigh Valley, McIntosh,  
Brooks College  
(Sunnyvale & Long Beach)

## Academy Segment

IADT Toronto &  
Pittsburgh

## Transitional Schools

## Gibbs Segment

7 Gibbs Schools

## University Segment

AIU Los Angeles

2008 Revenue	2008 Operating Loss	2009 Revenue	2009 Operating Loss
\$75 - \$90	(\$50-\$65)	\$8 - \$18	(\$42-\$52)

**Exiting real estate obligations**

**(\$55-\$75)**

# Transitional Schools – Financial Statement Presentation

- **Financial results will be included in continuing operations during the teach-out period**
  - Results are reported within Transitional Schools
- **Upon the school's closing, all current and prior period financial results will be presented as discontinued operations**
  - We will recast our prior period quarterly/annual results to report the results of the closed schools as discontinued operations
  - To the extent there are future costs incurred related to a school that has ceased operations, they will also be reported within discontinued operations

# Performance Expectations

(\$ millions)	2007 Pro Forma		2010 Outlook
Revenue	*\$1,635 <sup>(1)</sup>	6% - 8% CAGR	\$1,950 - \$2,050
Operating Income	*\$151 <sup>(1)</sup>	Low to Mid- Teens	\$225 - \$270
Transitional Operating Income	(\$86)	N/A	(\$10 - \$20) <sup>(2)</sup>
Total	\$65		\$210-\$255
Est. Free Cash Flow	\$164		\$195 - \$235

(1) 2007 Revenue and operating income exclude Transitional Schools Division

(2) Upon closure of the school, the results will be reclassified as discontinued operations

# First Quarter 2008

- **First quarter met internal expectations:**

- Revenue was \$460.2 million, relatively unchanged from previous year; Excluding Transitional Schools, revenue was up 2.5%
- Less Transitional Schools, Starts increased 10%
- Adjusted operating margin 7.7% <sup>(1)</sup> vs. 9.3% <sup>(2)</sup> a year ago

- **Balance sheet remains strong:**

- As of March 31, 2008, cash and cash equivalents and investments totaled \$417 million

- **Continuing to return value to shareholders:**

- Since inception, repurchased 19.2 million shares for approximately \$605 million; Remaining repurchase authorization as of March 31, 2008 approximately \$196 million

(1) Excludes Goodwill and Asset Impairment Charges and Severance Stay Bonuses

(2) Excludes Severance Stay Bonuses

# Full Year 2008 Expectations – Considerations

<u>Change versus 2007</u>	<u>Impact</u>
▪ <b>Student Lending Contraction</b>	Q2 through Q4
▪ <b>AIU Calendar Shift</b>	
▪ Online	Shift from Q1 to Q3
▪ On-Ground	Shift from Q2 to Q1
▪ <b>AIU Media Spend</b>	Q1
▪ <b>AU Dubai Exit</b>	Q1
▪ <b>Severance Costs</b>	Q1
▪ <b>Some Teach-outs will be Completed</b>	Shift to Discontinued Operations

# Student Lending Transition

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- **January, 2008:** Sallie Mae (SLM) announced intention to terminate recourse loan program to new students
- **February, 2008:** SLM announced intention to terminate recourse loan program to existing students
- **February, 2008:** CECO announces balance sheet use to support continuing students and selective lending to new students
- **May, 2008:** President signs legislation for increased federal funding
- **May, 2008:** CECO announces increase in balance sheet usage estimates in response to credit market contractions

# 2008 Student Financing Projections

## Challenges

- **Loss of SLM Recourse Loans**
- **Reduced Lender Options for Private Loans**
- **Extension of LCB Culinary Programs from 15 months to 18-21 months**

## Improvements

- **Use of Company Balance Sheet for Credit Worthy Students**
- **Use of Company Balance Sheet for Serial Loans**
- **Additional Stafford Loans and Pell Grants**
  - **Shift Private Loan Volume to Government Loans**
  - **Reduced Cash Needs of Eligible Students**

## 2008 Estimated Impact

<b>Reduction of Annual Revenue</b>	<b>\$75 - \$90 million</b>
<b>Reduction of Annual Operating Income</b>	<b>\$40 - \$60 million</b>
<b>Annual Originations of Student Payment Plan from Company Balance Sheet</b>	<b>\$45 - \$65 million</b>

# Summary

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- **Growth Potential in Online**
- **Continued Margin Improvement in On-ground**
- **Ability to Gain Operating Leverage in Cost Structure**
- **Significant Cash Flow Generation**
- **Strong Balance Sheet**

