the year of the graduate
Career Education Corporation is 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, CEC has progressed toward our goal of becoming the world’s leading provider of quality educational services. CEC is the world’s largest on-ground provider of private, for-profit, postsecondary education and has a substantial and growing presence in online education. CEC’s schools prepare students for professionally and personally rewarding careers through the operation of 86 campuses, including two online campuses, located throughout the United States and in France, Canada, and the United Kingdom.

CEC’s schools offer doctoral degree, master’s degree, bachelor’s degree, associate degree, and non-degree certificate and diploma programs in the following career-oriented disciplines: Business Studies, Visual Communication and Design Technologies, Health Education, Culinary Arts, and Information Technology.

MISSION STATEMENT FOR LEARNING: OUR MISSION IS TO SERVE STUDENTS FROM DIVERSE BACKGROUNDS, SEEKING TO ENHANCE THEIR INDIVIDUAL WORTH AND PROFESSIONAL POTENTIAL, BY DELIVERING QUALITY EDUCATIONAL PROGRAMS AND SERVICES. OUR FACULTY AND STAFF ARE COMMITTED TO PROMOTING STUDENT SUCCESS AS MEASURED BY GRADUATION AND CAREER ACHIEVEMENT.
Graduation day! It’s the goal that each student at a Career Education Corporation institution points toward from the day they begin classes. It celebrates the successful completion of their preparation for the career of their dreams. And it marks the next step in their effort to put their passion to work and turn their dream into a rewarding and fulfilling future. All of us at CEC are proud to play a role in their success. That’s our passion, and our privilege.
For Career Education Corporation (CEC), 2005 was a year of accomplishment… significant challenge…and positive change. Once again we achieved record revenues, cash flow and earnings – even as we focused on strengthening our processes and our infrastructure and laying a foundation for future growth. We made changes to our corporate governance policies and practices in the interest of our shareholders, and we moved forward with confidence into the next stage of our corporate life.

At CEC, education is our passion. We open doors for students – many of whom might not otherwise have access to quality education – and we support our students throughout the educational process. Our goal is to enable students to graduate and then to pursue careers which are rewarding, satisfying and fulfilling. We provide hope and opportunity and enhance lives and build futures.

Along the way, we continue to achieve exceptional business results. During 2005, we set new records and expanded our business in several key areas:

- Overall revenue grew 18 percent and our student population grew to over 104,000.
- Our Online Education Group (OEG) segment, which represents the results of the online campuses of American InterContinental University (AIU), Colorado Technical University (CTU) and Stonecliffe College Online (an academic division of CTU), set the pace, with a 70 percent increase in revenues and a 65 percent increase in income from operations.
- We successfully launched new academic programs to meet the needs of additional interested student groups – for example, Kitchen Academy, a shorter-duration culinary program focused on students seeking entry level positions; and Stonecliffe College Online, which leverages our state-of-the-art online capabilities and caters to students seeking a slower-paced associate degree program.

Our goal is to be market-responsive and flexible, adapting quickly to changing market needs with new and innovative offerings of quality education programs.

**OUR COMPETITIVE ADVANTAGES**

We take great pride in the quality of our brands, in our technology, and in our ability to anticipate the needs of future students and employers. We are proud of our prominent educational brands: American InterContinental University, the Brooks Institute of Photography, Colorado Technical University, Harrington College of Design, International Academy of Design and Technology, Katherine Gibbs Schools, Le Cordon Bleu Schools of North America, and Sanford-Brown. These brands and this kind of heritage make us unique in our industry and demonstrate our commitment to quality.

Our technology platforms are second to none, offering ease of access for our students and attractive, logical entry and navigation. We believe this technology continues to be a key enabler, both for our students and our company.

We believe that our schools are well positioned to quickly adapt to the changing needs of the marketplace that they serve. For example, our schools’ online campuses continue to expand, responding to lifestyle demands and the needs of parents and working professionals. In addition, we have introduced a hybrid learning model that allows maximum flexibility for students choosing to pursue their education both online and in a traditional classroom setting. Our intent is to meet students wherever they are – and take them wherever they want to go. Our schools will continue to be innovative in their academic program offerings, methods of delivery, and in target markets.

**ADDRESSING OUR CHALLENGES, LEVERAGING OUR OPPORTUNITIES**

During 2005, we were successful in taking aggressive steps to address areas of challenge and capitalize on important opportunities:

- **CEC and certain of our schools were faced** with legal and federal, state, and accrediting body regulatory matters. We continue to strengthen our compliance infrastructure to promote a strong compliance culture throughout our organization. We are dedicated to working cooperatively with applicable federal and state agencies and accrediting bodies to resolve existing regulatory matters.
- **In December 2005, we were notified** that the Commission on Colleges of the Southern Association of Colleges and Schools (SACS) had placed AIU on probation status for one year. A status review of AIU’s probation status is currently scheduled for the December 2006 meeting of SACS. AIU has put in place a strong action plan to address SACS’ recommendations and is fully committed to resolving all issues identified.
- **Our Colleges, Schools and Universities (CSU) segment experienced** a softening of revenue and population growth during 2005, which we attribute primarily to adverse publicity at a few of our schools, overall market conditions, and a strategic and appropriate tightening of our credit standards. In tightening credit standards for our students, we believe we are laying the foundation for long-term, high-quality, sustainable growth. We have addressed any internal challenges that have led to adverse publicity about our company and are working hard to communicate the successes of our company, our schools, and our students. We believe that we have an outstanding story to tell, that positive outreach will make a significant difference, and that current challenges are being addressed.
- **Our CSU segment of schools also executed a wide range of operational initiatives** during the year focused on five key objectives which make up our student lifecycle: defining and communicating a selling premise that resonates with prospective students; converting more leads into enrollments; improving the percentage of enrollees who begin classes; and improving student retention, all of which lead to increased operating margins. Our ultimate goal with all of these initiatives is to open
doors for students and then to support them all the way through to successful graduation. Results of these efforts, described in detail in the Operations Review section of this report, are encouraging. These five initiatives will continue as tactical priorities in 2006 and beyond.

- **Our Gibbs operating division experienced** declines in student population during 2005. We are in the process of re-positioning the brand, adding new and unique programs and expanding our degree offerings. By year-end we achieved trend improvement in many key business metrics.

- **In addition, we introduced our hybrid learning model**, which combines both online and traditional classroom instruction, providing our students with more choices in pursuing their education and greater personal scheduling flexibility.

- **Finally, we initiated our reach into the enthusiast market**, with the launch of Chefs.com, which combines a wide range of educational content with product sales and advertising for culinary enthusiasts who do not necessarily aspire to careers in the field.

### CORPORATE GOVERNANCE

During 2005 and early 2006, we significantly strengthened our corporate governance by making the following corporate governance enhancements:

- **increased our Board size from seven to nine members**, including seven independent directors under SEC and NASDAQ rules;
- **appointed three new independent Board members**;
- **terminated our shareholder rights plan**;
- **implemented minimum stock ownership guidelines for Senior Management**;
- **implemented minimum stock ownership guidelines for Board of Directors**;
- **implemented mandatory continuing education for all Board members**;
- **developed a policy requiring approval for Board members to serve on other outside boards**;
- **developed a proposal to stockholders for phased-in declassification of the Board**;
- **developed a proposal for stockholders to call special meetings with a two-thirds affirmative vote**; and
- **adopted majority voting for election of directors into our by-laws**.

These enhancements demonstrate our commitment to the best interests of our shareholders through sound corporate governance. We are gratified by the positive response from shareholders to the steps we have taken, and we will continue to evaluate our corporate governance practices to ensure that we remain among the leaders in this area.

The Board also accepted the resignation of Wallace O. Laub, who has served Career Education as a director since 1994. His contributions and wise counsel will be missed.

### OUR STRATEGY FOR THE FUTURE

While we are proud of the exceptional shareholder value generated by our company over the past decade, we also recognize that we have reached a new and important stage in our development. We have turned our attention to strengthening our infrastructure and our compliance culture, laying the foundation for quality, sustainable long-term growth.

Our business strategy for 2006 and beyond is based on seven key elements:

- **The first, and the one at the center of our strategy, is customer service.** While we serve many kinds of customers, our students are our primary customers. Serving these customers well, and better than anyone else in our industry, will be the primary objective for everyone in our company…absolutely everyone.

- **Next is operational and educational excellence.** We intend to continue to build on our corporate culture, systems and processes to advance our commitment to operational and educational excellence.

- **Third is business model discipline.** Our business models are designed to capitalize on our competitive advantages and most effectively meet the needs of our customers. We are maximizing the effectiveness of our business models through improved customer targeting and enhanced service delivery.

- **Fourth is an intense focus on return on investment.** A key goal will be to improve our decision-making processes throughout the entire organization so that every part of our business is well aligned with the company’s goals and commitments and generates maximum shareholder value.

- **The fifth element of our strategy is market expansion.** We remain committed to maximizing long-term shareholder value through quality growth that is strategic, targeted, and sustainable. Within the limitations and restrictions in which we currently operate, we will expand our markets through continued growth of our online campuses, the establishment of new programs at our existing schools, the opening of new start-up or satellite campuses of our existing schools, the expansion of our hybrid learning model, and the pursuit of international expansion opportunities.

- **Sixth is the creation of a compliance culture throughout our organization.** That culture is being built on a shared understanding of the organization’s goals and values, as well as shared accountability for following appropriate rules and guidelines and adhering to the company’s standards for personal and professional ethical behavior.

- **Finally, we are seeking to become an employer of choice, fully understanding that it is only through the dedication of our talented workforce that our students will succeed, our goals will be achieved and the vision of our company will be realized.**

Career Education Corporation is poised and ready for another major step forward. We are deeply aware that taking that step successfully will involve a sincere willingness to change. We have a passionate commitment to becoming the world’s leading provider of quality educational services. We also have an extraordinary family of students, schools, employees and educators across the world and a business that continues to operate successfully, quarter after quarter and year after year.

I would like to thank all of you who have continued to support us throughout the unprecedented challenges and the exciting opportunities of the past year. Our goal is to continue to generate value for you, our shareholders and for our students. We have a clear vision for the future and a determination to help our students turn their dreams into satisfying and fulfilling lives.

Sincerely,

John M. Larson
Chairman, President and Chief Executive Officer
One of the hallmarks of Career Education Corporation is the consistent strength of our financial performance year after year. Along with the record revenues and earnings that shareholders have come to expect, each year we also deliver solid gains in the key areas of profitability, return on investment and cash generation. Our success in meeting those standards once again in 2005, a year of significant change and challenge, provides compelling evidence of our underlying financial strength.

Our operating margin increased by 120 basis points during 2005 to 18.1% from 16.9% a year earlier. This improvement was driven by the strong profitability of our Online Education Group (OEG) segment campuses, which was the primary contributor to our earnings growth during 2005. These gains at our OEG segment campuses were partially offset by overall lower margins for our on-ground campuses included in our Colleges, Schools and Universities (CSU) segment, due to lower-than-expected student population. We believe that the primary factors contributing to student population declines at our CSU segments schools include adverse publicity at certain schools, a strengthening economy and job market that led some prospective students to pursue options other than furthering their education and tightening of credit standards for our students. This latter action has limited the number of students we are able to serve, but we continue to believe that it is in the best long-term interest of our students and our shareholders.

Return on equity during 2005 was 23.1%, an increase from 21.0% during 2004. Our return on equity has increased every year since we became a public company in 1998. The increase during 2005 was achieved despite continued investment in facilities, technology and personnel that positioned the company to achieve current and future high-quality, sustainable growth. These investments included: two new on-ground campuses and the expansion of several existing campus locations; the development of Stonecliffe College Online, a division of Colorado Technical University; the introduction of more than 50 new programs at our existing schools; two new call centers for our OEG segment campuses and additional admissions representatives employed by both our OEG segment and CSU segment campuses; continued expansion of our compliance, legal and internal audit infrastructure; and other business and technology improvements.

Stronger cash generation in 2005 resulted from our increased profitability, continued focus on stricter collection practices and improved working capital management, which significantly reduced overall bad debt expense and strengthened our balance sheet. Cash at year-end, including short-term investments, totaled $404 million, operating cash flow was $378 million and accounts receivable days sales outstanding decreased to 14 days as of December 31, 2005, compared to 17 days a year earlier. In addition, capital expenditures decreased to $126 million during 2005 from $143 million during 2004. Capital expenditures represented approximately 6.2% of total revenue during 2005 versus 8.3% of total revenue during 2004. We expect continued capital efficiency in 2006 through improved facility utilization across our network of schools.

In recognition of our solid financial position and strong cash generation capabilities, our Board of Directors authorized the use of up to $300 million for the repurchase of shares of our common stock. During the year, we repurchased approximately 5.3 million shares of our common stock for approximately $200 million at an average price of $37.97 per share. In the first quarter of 2006, our Board of Directors authorized an additional $200 million for share repurchases.

At CEC and at our schools, the professional and personal standards of behavior expected of all our employees are defined in our Code of Ethics. Compliance with the Code of Ethics is monitored and measured through stringent control processes and procedures. Our ability to consistently produce outstanding results is enhanced by our commitment and dedication to a financial control environment.

In 2006, our financial operations will remain focused on increasing profitability, return on invested capital and cash generation. These key financial indicators form the foundation of our financial strategy for driving sustainable growth and delivering increased shareholder value.

Sincerely,

Patrick K. Pesch, Executive Vice President, Chief Financial Officer and Treasurer
We will remain focused on our financial strategy for driving sustainable growth and delivering increased shareholder value.

Financial Highlights

**Student Population by Degree Granting Status**
- Doctoral, Master's, Bachelor's: 48%
- Associate Degree: 28%
- Certificate: 14%

**Student Population by Core Curriculum**
- Business Studies: 45%
- Visual Communication and Design Technologies: 23%
- Health Education: 12%
- Culinary Arts: 9%
- Information Technology: 8%

**Student Population by Age Group**
- Over 30: 32%
- 21 to 30: 46%
- Under 21: 22%

**Revenue**
- 05 = $2.03 billion
- 04 = $1.72 billion
- 03 = $1.18 billion
- 02 = $770.7 million
- 01 = $542.1 million

**Net Income**
- 05 = $538.8 billion
- 04 = $512.8 billion
- 03 = $61.8 billion
- 02 = $35.3 billion

**Diluted Net Income Per Share**
- 05 = $2.26
- 04 = $1.71
- 03 = $1.12
- 02 = $0.65
- 01 = $0.39

**Student Population as of October 31**
- Doctoral, Master's, Bachelor's: 48%
- Associate Degree: 38%
- Certificate: 14%

**Student Population by Curriculum**
- Business Studies: 45%
- Visual Communication and Design Technologies: 23%
- Health Education: 12%
- Culinary Arts: 9%
- Information Technology: 8%
“My hero in high school was Francisco Cortina, who did the 3-D modeling for the movie “The Final Fantasy: the Spirits Within.” I fell in love with computer animation, and decided to make it my career. My degree from IADT Tampa helped me land a job at the same company where Francisco works, and he’s even critiqued my work. How great is that!”
For the students who successfully completed their education at a Career Education Corporation (CEC) school in 2005, graduation marked the culmination of months of study and hard work that prepared them to find their place in the career field of their choice. Their sense of accomplishment was shared by all CEC employees, whose every effort is focused on helping students arrive at this milestone in their lifelong learning journey.

Students at CEC schools travel an educational path that spans four distinct stages, leading ultimately to the pursuit of a successful and satisfying career. We call this path the student lifecycle. First is the inquiry stage, which begins with the student’s initial expression of interest and ends when the student enrolls in one of our schools. Next is the “stitch-in” stage, the period between enrollment and the start of classes. These stages are enablers that open the doors and offer opportunities but are only considered successful if they lead ultimately to graduation.

These are followed by the most important stage: the education delivery stage, which begins on the student’s first day of school and ends with graduation. Providing a high-quality education is the primary focus of CEC and its schools. The final stage is post-graduation. The CEC’s Career Services professionals are available to students throughout their entire academic program and career.

Helping students successfully complete this journey is a commitment shared by each of the 84 on-ground campuses of CEC’s Colleges, Schools and Universities (CSU) segment and the two online campuses included in the Online Education Group (OEG) segment.

Once again in 2005, our campuses brought that commitment to life through operational initiatives that helped to improve performance in each stage of the student lifecycle and allowed more students than ever before to realize the joy and satisfaction of graduation.

Many of these initiatives resulted from new educational programs and ideas associated with our evolving business strategy, while others built upon past successes. Together, they provided prospective students with the information and assistance they needed to choose the CEC school and program best suited to their career objectives, and helped them transition successfully from prospects to students, strengthening their confidence in their ability to succeed. These initiatives broadened the range of academic programs and degree options available to students, eliminated obstacles that otherwise might have prevented a student from beginning or completing their education and equipped them to successfully take the first step on their post-graduation career path.

The task for CEC schools in the first stage of the student lifecycle is to generate and manage leads and convert them into enrollments. Historically, CEC has excelled at lead generation, producing millions of leads each year. In early 2005, CEC conducted a major research effort to identify themes that would resonate most powerfully with potential students. From this research emerged a new selling premise that was...
a clear winner among study participants — “Love What You Do for a Living.” This message now is creating a compelling differentiator in advertising and marketing efforts for our CSU segment schools.

Admissions representatives employed by our schools play a pivotal role in converting leads by guiding and supporting prospects through the enrollment process. Our CSU segment schools focused on performance of admissions representatives through several initiatives that improved methods of recruiting, training and evaluating admissions representatives including:

- **New testing methods** that allow candidates’ personal characteristics to be compared to those of the “top performing” admissions representatives, to identify those most likely to succeed in this challenging role;
- **Development of a full on-boarding process**, that includes two weeks of web-based online training focused on product knowledge, compliance and skills necessary for success, followed by an intense five-day hands-on training program at corporate headquarters that provides more in-depth training on regulatory compliance issues and a thorough review of our schools’ admissions policies and procedures;
- **A new evaluation system** to more accurately measure performance; and
- **Expansion of CEC’s “mystery shopper” program** in which outsiders pose as prospective students to help measure the effectiveness of admissions representatives and their compliance with our admissions policies and procedures.

Turning enrollments into starts is the challenge that CEC schools tackle during the ‘litch-in’ stage. During this critical period, which can last from a few days to several months, CEC schools strive to continually strengthen the bonds connecting them to their future students, bonds that will be strengthened and nurtured throughout the entire educational process.

An educational decision is one of the biggest decisions that prospective students may make in their lives. We strive to make certain that all prospective students are well-informed and comfortable when they are making a decision to attend one of our schools. As a part of those efforts, CEC’s stitch-in process in 2005 relied on frequent contact by admissions representatives with prospective students, to answer their questions and help resolve any issues that arose. The primary stitch-in initiative in 2005 was the re-launch of CEC’s Save Our Students program, which featured a follow-up call to the student within

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**GRADUATE PROFILE:** When Chris Beal decided to turn his passion for cooking into a career, little did he imagine that within weeks of his graduation from Western Culinary Institute (WCI) he would be the chef at a new Mexican restaurant in his home town of Portland, Oregon.

Chris’ rapid ascent began during the six-week externship in Los Angeles that completed his culinary arts degree, when by chance he met the owner of several restaurants, including one in Portland.

“After my externship ended, I spent three days cooking at one of his Los Angeles restaurants,” Chris said. “Two weeks after my ‘mini-audition,’ he hired me as his chef in Portland.”

Fate soon intervened again when the owner decided to close the Portland restaurant and reopen following extensive renovation as La Vanguardia, a Taqueria-style restaurant serving Mexican cuisine. Chris went to Los Angeles and worked with the chef at another of the owner’s restaurants to develop La Vanguardia’s menu, then returned to Portland to help prepare the restaurant for reopening.

Since La Vanguardia’s debut, the cuisine produced by Chris and his kitchen staff has begun to win a following.

“It’s really exciting to help create a new restaurant from the ground floor,” he says.

“The menu is limited to just a few items to help make sure that everything we serve is done perfectly. Thanks to my degree from WCI, I’m living my dream.”
“I love using my creativity in the kitchen, and cooking is great therapy – when I’m at the stove, my worries and troubles just seem to disappear. The experience of seeing a restaurant unfold, from the first nail in the wall to the first plate of food leaving the kitchen, has been truly amazing.”
“What drew me to a career in interior design? It’s the combination of creativity, artistic ability, organizational skills and technical competence. Also, several of my family members are architects, so I grew up in a design-oriented atmosphere. Studying at Harrington helped bring out and develop those qualities in me.”
the first 24 hours followed by weekly phone contact with prospective students. The student is then invited to attend pre-orientation activities and other events at the school, such as an open house. Many CEC schools also employed a full-time student coordinator to help future students resolve problems with financial aid, transportation, housing, child care, part-time employment and other issues related to starting school.

With the arrival of their first day of classes, new CEC students embark on the education delivery stage of their journey. CEC’s responsibility in this stage is three-fold: to provide students with the best possible education; to help them stay in school; and to assist them in launching their post-graduation career.

No priority ranked higher for CEC schools in 2005 than the quality of the education we deliver, as evidenced by the steps each school took to upgrade existing curricula; introduce new programs and degree options; improve the instructional skills of their faculty; invest in technology to aid learning; and create more options for delivering course content.

Although all CEC campuses have historically utilized local program advisory boards, during 2005 CEC established a national information technology program advisory board which brought together experts from across the country and from all sectors of the IT industry. Based on the success of this initial effort, creation of national program advisory boards in additional academic disciplines is underway.

New programs offered by CEC schools further enhanced the educational opportunities we provide to students. More than 50 new programs at credential levels ranging from diplomas to doctoral degrees debuted at 30 CSU segment campuses.

Improving faculty members’ instructional skills continued to receive significant attention in 2005. At many schools, “education coaches” drove the faculty development process. Their efforts were complemented by corporate initiatives including Web-based training sessions, monthly seminars on various aspects of integrity throughout the school, and the collection and posting on faculty portals of more than 100 “tips” on best instructional practices.

Technology once again played a major role in enhancing educational quality across CEC’s network of schools, particularly at the online campuses of American InterContinental University (AIU), AIU Online, and Colorado Technical University (CTU), CTU Online, for whom technology is an important competitive advantage and differentiator. Advances at the online campuses were led by the roll-out of a totally revamped version of their pioneering online virtual campus, a fully integrated learning environment that puts all of the elements of a traditional campus at the students’ fingertips. Major upgrades included embedding
technology that helps direct students to the appropriate section within the virtual campus depending on their personal needs. In addition, a “virtual tour guide” aids students in navigating all areas of the virtual campus, and instant messaging allows students to communicate with professors or their classmates in real time. The online campuses also created a faculty tool to improve instructors’ ability to track the progress of their students and more readily identify those who are struggling or need additional assistance.

Presentations and visual aids now can be delivered in real time via streaming audio and video, and students can use new videoconferencing capabilities to see and hear their instructors and classmates during online class sessions. This unique ability blurs synchronous learning with asynchronous learning and allows the student to direct their learning experience.

CSU segment schools, meanwhile, continued to invest in the latest computer hardware and software, laboratories and other classroom technology that facilitated learning and enabled students to develop technology-related skills they will need when they enter the workplace. In addition, new capabilities and features added to the student and faculty portals enhanced convenience and usability and improved communication between students and faculty.

The year also brought the debut of three learning platforms that created new ways to deliver educational programs to students.

- **Kitchen Academy** is CEC’s new brand in culinary education that serves students seeking a short-duration, skills-focused culinary education. Enrollment at the Hollywood, California campus exceeded projections for each start in 2005, and expansion to additional locations is planned in 2006.

- **With the fourth quarter launch of Stonecliffe College Online,** a division of Colorado Technical University, CEC entered the market for non-accelerated online education. Stonecliffe College Online offers associate degrees in business and criminal justice to students seeking to complete their online degree at a slower pace compared to CTU Online and AIU Online.

- **During 2005, CEC made advances in the development of its unique hybrid learning model** that combines online learning with conventional classroom instruction. The hybrid model provides students with greater scheduling flexibility and convenience.
“Some people think of online education as an easy way to get a quickie degree. Those people would be wrong. My program at AIU Online was the real deal, and it took hard work and true dedication to get through it.”
“Moving back to the U.S. from Nigeria and returning to school after so many years was a big step. But whatever I needed — financial aid, extra help from my instructors or assistance in finding a job — the people at SBI Dallas were there for me. They kept every commitment they made and more.”
Those needing developmental assistance are provided with support structured around our students’ differing learning styles. Once students begin classes, their academic achievement is monitored closely and tutoring is made available to those who need assistance.

In spite of all these efforts, if unaddressed, personal issues also can hinder a student’s success. One of CEC’s most powerful tools for combating these problems and improving retention is the Career Success Survey, which CSU segment schools administered to new students prior to each program start in 2005. The survey provides insights into each student’s specific needs in such areas as finances, transportation, child care and even self-esteem.

Most students who leave school do so in the first five to eight weeks after beginning classes. To help students successfully transition through this critical period, some CEC schools have begun employing full-time student advisors who have no teaching responsibilities. Each new student is assigned to a student advisor for their first term. The advisor maintains frequent contact with the student, closely monitors their progress, helps resolve any problems that may arise, and serves as a liaison to other school support services and personnel.

School-level retention efforts were supported in 2005 by corporate initiatives that focused on helping schools to improve their retention rate. Divisional retention symposiums brought together school management and divisional oversight staff to examine every aspect of student satisfaction, consider best practices and to develop school-specific strategies for improving retention.

While the OEG segment campuses have enjoyed strong growth, attrition has been an area of focus in 2005, primarily for first time students. Studying online eliminates most problems related to transportation, scheduling and child care. But since most online students also work full time, balancing work, school and family can become a challenging issue. Retention-focused initiatives in 2005 included lowering the student-to-advisor ratio during the students’ first term, when drops are most likely, offering program-specific courses earlier to retain student interest and excitement, and employing a predictive model using distinct student characteristics to identify at-risk students even before they start school. Although retention at OEG segment campuses declined in 2005 from the prior year, improvement toward year-end provided evidence that our retention activities were gaining traction.

As students at CEC schools near the successful completion of their educational journey, post-graduation plans take on greater urgency for those who face the prospect of launching a new career. Ready to support and assist them in this daunting task are the Career Services professionals at each campus and on our corporate staff. Together, they pursue a common goal: developing self-directed and self-sufficient students with the knowledge, skills and confidence to successfully identify, pursue and obtain a job in their chosen field.
Career Services staff interacts with students throughout their academic program and post graduation. The process often begins with helping them secure a part-time job, and many CEC schools employ full-time student employment coordinators to manage this vital task. Another important aspect of the Career Services role is helping students prepare for their job search through skills development seminars, resume writing, individual counseling and interview simulation. They also develop relationships with local and regional area employers and continually monitor current job openings. To create personal interaction opportunities between students and prospective employers for externships or full-time post-graduation jobs, Career Services staff members arrange on-campus recruiting visits, schedule interviews and conduct local job fairs.

CEC’s highly successful Online Job Fair continued to grow in scope during 2005. Held each spring and fall, the three-day events allow students and alumni at all of the CSU segment schools to view job openings posted by participating employers, submit their resumes electronically for jobs that interest them, and interact with prospective employers through public or private live chat sessions and e-mail exchanges. Registration for the fall Online Job Fair included more than 8,900 employers and 12,700 CEC students. Career Services is also available to students long after they have graduated from a CEC school. The relationship between our students and Career Services is one that continues throughout the student’s career.

At graduation ceremonies around the world and online, the proud members of the classes of 2005 at CEC schools received the diplomas, certificates and degrees that confirmed the successful completion of their educational journey. Like the hundreds of thousands of CEC alumni who preceded them, they view the future with optimism, confident that their CEC education has equipped them with the knowledge and skills to realize their career dreams. Their achievement is the ultimate measure of our success.
“Working in a prison wasn’t even on my radar screen when I began my criminal justice program at Gibbs Livingston. But I’ve found my niche. Each day brings something new, I have lots of options for the future and the job is really satisfying because I’m making a contribution that matters.”
Once again in 2005, Career Education Corporation delivered strong revenues and earnings by providing students with a total educational experience that equipped them with the knowledge and skills needed to succeed in their chosen career field. The company also developed and began implementing a strategy to drive high-quality, sustainable growth in 2006 and beyond.
## Condensed Consolidated Statements of Income

FOR THE YEARS ENDED DECEMBER 31  
(AMOUNTS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

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<th>03</th>
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<td><strong>REVENUE</strong></td>
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<tr>
<td>Tuition and registration fees</td>
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<tr>
<td>Other</td>
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<td><strong>Total Revenue</strong></td>
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<table>
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<tr>
<td><strong>OPERATING EXPENSES</strong></td>
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<tr>
<td>Educational services and facilities</td>
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<td>General and administrative</td>
<td>$958,098</td>
<td>$822,358</td>
<td>$535,298</td>
</tr>
<tr>
<td>Depreciation and amortization</td>
<td>$78,720</td>
<td>$57,469</td>
<td>$43,908</td>
</tr>
<tr>
<td><strong>Total operating expenses</strong></td>
<td>$1,665,483</td>
<td>$1,436,971</td>
<td>$992,721</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>05</th>
<th>04</th>
<th>03</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>OTHER INCOME (EXPENSE)</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest income</td>
<td>$11,967</td>
<td>$2,952</td>
<td>$1,004</td>
</tr>
<tr>
<td>Interest expense</td>
<td>$(1,841)</td>
<td>$(2,802)</td>
<td>$(1,845)</td>
</tr>
<tr>
<td>Share of affiliate earnings</td>
<td>$5,067</td>
<td>$4,248</td>
<td>$3,354</td>
</tr>
<tr>
<td>Miscellaneous income (expense)</td>
<td>$(982)</td>
<td>$(290)</td>
<td>$1,334</td>
</tr>
<tr>
<td><strong>Total other income</strong></td>
<td>$14,211</td>
<td>$4,108</td>
<td>$3,847</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>05</th>
<th>04</th>
<th>03</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Income before provision for income taxes</strong></td>
<td>$383,283</td>
<td>$295,669</td>
<td>$188,113</td>
</tr>
<tr>
<td>Provision for income taxes</td>
<td>$143,347</td>
<td>$116,050</td>
<td>$76,309</td>
</tr>
<tr>
<td>Income from continuing operations</td>
<td>$239,936</td>
<td>$179,619</td>
<td>$112,804</td>
</tr>
<tr>
<td>Loss from discontinued operations</td>
<td>$(6,058)</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td><strong>Net income</strong></td>
<td>$233,878</td>
<td>$179,619</td>
<td>$112,804</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>05</th>
<th>04</th>
<th>03</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>NET INCOME PER SHARE — BASIC</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Income from continuing operations</td>
<td>$2.38</td>
<td>$1.77</td>
<td>$1.17</td>
</tr>
<tr>
<td>Loss from discontinued operations</td>
<td>$(0.06)</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td><strong>Net income</strong></td>
<td>$2.32</td>
<td>$1.77</td>
<td>$1.17</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>05</th>
<th>04</th>
<th>03</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>NET INCOME PER SHARE — DILUTED</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Income from continuing operations</td>
<td>$2.32</td>
<td>$1.71</td>
<td>$1.12</td>
</tr>
<tr>
<td>Loss from discontinued operations</td>
<td>$(0.06)</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td><strong>Net income</strong></td>
<td>$2.26</td>
<td>$1.71</td>
<td>$1.12</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>05</th>
<th>04</th>
<th>03</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>WEIGHTED AVERAGE SHARES OUTSTANDING</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Basic</td>
<td>100,974</td>
<td>101,629</td>
<td>96,214</td>
</tr>
<tr>
<td>Diluted</td>
<td>103,383</td>
<td>105,004</td>
<td>100,522</td>
</tr>
</tbody>
</table>

The consolidated financial statements, auditor reports, and accompanying footnotes are included in the company’s Annual Report on Form 10-K as filed with the Securities and Exchange Commission on March 6, 2006.
### Condensed Consolidated Balance Sheets

**AS OF DECEMBER 31 (AMOUNTS IN THOUSANDS)**

#### ASSETS

**Current Assets:**
- Cash and cash equivalents: $132,308, 349,458
- Investments: 272,093, —
- Total cash, cash equivalents, and investments: 404,401, 349,458

**Receivables:**
- Students, net of allowance for doubtful accounts of $44,839 as of December 31, 2005 and $61,136 as of December 31, 2004 respectively: 76,447, 85,982
- Other, net: 5,015, 5,378
- Prepaid expenses: 37,412, 29,649
- Inventories: 14,090, 17,347
- Deferred income tax assets: 10,122, 18,806
- Other current assets: 31,067, 5,980
- Total current assets: 578,554, 512,600

**Property and equipment, net:** 411,144, 351,140

**Goodwill:** 443,584, 448,896

**Intangible assets, net:** 35,286, 35,881

**Other assets:** 37,537, 38,495

**Total assets:** $1,506,105, $1,387,012

#### LIABILITIES AND STOCKHOLDERS' EQUITY

**Current Liabilities:**
- Current maturities of long-term debt: $627, 2,274
- Accounts payable: 28,627, 38,263
- Accrued expenses:
  - Payroll and related benefits: 39,471, 38,193
  - Income taxes: 23,509, 4,663
  - Other: 82,513, 70,520
- Deferred tuition revenue: 152,007, 166,743
- Total current liabilities: 326,754, 320,656

**Long-Term Liabilities:**
- Long-term debt, net of current maturities: 16,358, 21,591
- Deferred rent obligations: 89,680, 15,293
- Deferred income tax liabilities: 31,212, 39,972
- Other long-term liabilities: 5,854, 4,669
- Total long-term liabilities: 143,104, 81,525

**Total stockholders' equity:** 1,036,247, 984,831

**Total liabilities and stockholders' equity:** $1,506,105, $1,387,012

---

The consolidated financial statements, auditor reports, and accompanying footnotes are included in the company's Annual Report on Form 10-K as filed with the Securities and Exchange Commission on March 6, 2006.
# Condensed Consolidated Statements of Cash Flows

**FOR THE YEARS ENDED DECEMBER 31 (AMOUNTS IN THOUSANDS)**

## CASH FLOWS FROM OPERATING ACTIVITIES

<table>
<thead>
<tr>
<th></th>
<th>05</th>
<th>04</th>
<th>03</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net income</td>
<td>$233,878</td>
<td>$179,619</td>
<td>$112,804</td>
</tr>
</tbody>
</table>

### Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities

<table>
<thead>
<tr>
<th>Adjustment</th>
<th>05</th>
<th>04</th>
<th>03</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loss from discontinued operations</td>
<td>6,058</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Depreciation and amortization</td>
<td>78,720</td>
<td>57,469</td>
<td>43,908</td>
</tr>
<tr>
<td>Deferred income taxes</td>
<td>(76)</td>
<td>7,439</td>
<td>11,489</td>
</tr>
<tr>
<td>Loss on disposition of property and equipment</td>
<td>1,245</td>
<td>602</td>
<td>244</td>
</tr>
<tr>
<td>Tax benefit associated with option exercises</td>
<td>5,268</td>
<td>43,105</td>
<td>41,897</td>
</tr>
<tr>
<td>Other</td>
<td>812</td>
<td>821</td>
<td>991</td>
</tr>
</tbody>
</table>

**Changes in operating assets and liabilities, net of acquisitions**

<table>
<thead>
<tr>
<th></th>
<th>05</th>
<th>04</th>
<th>03</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net cash provided by operating activities</td>
<td>$378,225</td>
<td>$376,154</td>
<td>$233,287</td>
</tr>
</tbody>
</table>

## CASH FLOWS FROM INVESTING ACTIVITIES

<table>
<thead>
<tr>
<th></th>
<th>05</th>
<th>04</th>
<th>03</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business acquisitions, net of acquired cash</td>
<td>(1,019)</td>
<td>(17)</td>
<td>(83,484)</td>
</tr>
<tr>
<td>Acquisition transaction costs</td>
<td></td>
<td>(26)</td>
<td>(6,680)</td>
</tr>
<tr>
<td>Purchases of property and equipment, net</td>
<td>(125,626)</td>
<td>(142,781)</td>
<td>(100,272)</td>
</tr>
<tr>
<td>Purchases of investments</td>
<td>(920,163)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sales of investments</td>
<td>648,097</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td>(826)</td>
<td>1,054</td>
<td>(10)</td>
</tr>
</tbody>
</table>

**Net cash used in investing activities**

<table>
<thead>
<tr>
<th></th>
<th>05</th>
<th>04</th>
<th>03</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(399,537)</td>
<td>(141,770)</td>
<td>(190,446)</td>
</tr>
</tbody>
</table>

## CASH FLOWS FROM FINANCING ACTIVITIES

<table>
<thead>
<tr>
<th></th>
<th>05</th>
<th>04</th>
<th>03</th>
</tr>
</thead>
<tbody>
<tr>
<td>Purchases of treasury stock</td>
<td>(200,158)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Issuance of common stock</td>
<td>14,801</td>
<td>31,528</td>
<td>27,894</td>
</tr>
<tr>
<td>Net proceeds from (payments of) revolving loans</td>
<td>(2,477)</td>
<td>(78,963)</td>
<td>66,009</td>
</tr>
<tr>
<td>Payments of capital lease obligations and other long-term debt</td>
<td>(1,869)</td>
<td>(3,476)</td>
<td>(11,910)</td>
</tr>
<tr>
<td>Other</td>
<td></td>
<td>(4)</td>
<td>(584)</td>
</tr>
</tbody>
</table>

**Net cash provided by (used in) financing activities**

<table>
<thead>
<tr>
<th></th>
<th>05</th>
<th>04</th>
<th>03</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(189,703)</td>
<td>(50,915)</td>
<td>81,409</td>
</tr>
</tbody>
</table>

### Effect of foreign currency exchange rate changes

<table>
<thead>
<tr>
<th></th>
<th>05</th>
<th>04</th>
<th>03</th>
</tr>
</thead>
<tbody>
<tr>
<td>on cash and cash equivalents</td>
<td>(6,135)</td>
<td>4,754</td>
<td>3,511</td>
</tr>
</tbody>
</table>

**Net increase (decrease) in cash and cash equivalents**

<table>
<thead>
<tr>
<th></th>
<th>05</th>
<th>04</th>
<th>03</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(217,150)</td>
<td>188,223</td>
<td>127,761</td>
</tr>
</tbody>
</table>

**Cash and cash equivalents, beginning of year**

<table>
<thead>
<tr>
<th></th>
<th>05</th>
<th>04</th>
<th>03</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>349,458</td>
<td>161,235</td>
<td>33,474</td>
</tr>
</tbody>
</table>

**Cash and cash equivalents, end of year**

<table>
<thead>
<tr>
<th></th>
<th>05</th>
<th>04</th>
<th>03</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$132,308</td>
<td>$348,458</td>
<td>$161,235</td>
</tr>
</tbody>
</table>

The consolidated financial statements, auditor reports, and accompanying footnotes are included in the company’s Annual Report on Form 10-K as filed with the Securities and Exchange Commission on March 6, 2006.
SAFE HARBOR STATEMENT
This Annual Report contains forward looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements are based upon various assumptions, and certain known and unknown risks and uncertainties could cause actual results to differ materially from those expressed or implied in our forward looking statements. Such risks and uncertainties include, among others, those listed in Part I, Item 1A “Risk Factors” of the Company’s Annual Report on Form 10-K for the year ended December 31, 2005 and its other filings with the Securities and Exchange Commission. Career Education Corporation assumes no obligation to update its forward looking statements.

IMPORTANT INFORMATION
Career Education Corporation plans to file with the Securities and Exchange Commission (the “SEC”) and mail to its stockholders a Proxy Statement in connection with its 2006 Annual Meeting, and advises its security holders to read the Proxy Statement relating to the 2006 Annual Meeting when it becomes available because it will contain important information. Security holders may obtain a free copy of the Proxy Statement and any other relevant documents (when available) that Career Education Corporation files with the SEC at the SEC’s web site at http://www.sec.gov. The Proxy Statement and these other documents may also be obtained for free from Career Education Corporation by directing a request to Career Education Corporation, ATTN: Investor Relations, 2895 Greenspoint Parkway, Suite 600, Hoffman Estates, IL 60195, or to Georgeson Shareholder Communications Inc. by toll-free telephone at (888) 206-5970, or by mail at 17 State Street, 10th Floor, New York, NY 10004.

CERTAIN INFORMATION REGARDING PARTICIPANTS
Career Education Corporation, its directors and certain of its officers may be deemed to be participants in the solicitation of Career Education Corporation’s security holders in connection with its 2006 Annual Meeting. Security holders may obtain information regarding the names, affiliations and interests of such individuals in Career Education Corporation’s Annual Report on Form 10-K for the year ended December 31, 2005 and its proxy statement relating to its 2006 Annual Meeting.

COMMON STOCK
The Company’s Common Stock trades on the Nasdaq National Market under the symbol CECO. The Company has not paid any cash dividends to its common stockholders since its inception and does not intend to pay any cash dividends in the foreseeable future. As of March 2, 2006, there were 173 holders of record of our common stock. The following table sets forth the range of high and low sales prices per share for our common stock as reported on the National Market for the periods indicated. The split-adjusted initial public offering price of our common stock on January 29, 1998, was $2.00 per share.

<table>
<thead>
<tr>
<th>QUARTER ENDED</th>
<th>HIGH (H)</th>
<th>LOW (L)</th>
</tr>
</thead>
<tbody>
<tr>
<td>March 31, 2004</td>
<td>$58.69</td>
<td>$39.75</td>
</tr>
<tr>
<td>June 30, 2004</td>
<td>$70.91</td>
<td>$40.85</td>
</tr>
<tr>
<td>September 30, 2004</td>
<td>$46.50</td>
<td>$26.89</td>
</tr>
<tr>
<td>December 31, 2004</td>
<td>$43.09</td>
<td>$26.22</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>QUARTER ENDED</th>
<th>HIGH (H)</th>
<th>LOW (L)</th>
</tr>
</thead>
<tbody>
<tr>
<td>March 31, 2005</td>
<td>$42.05</td>
<td>$32.74</td>
</tr>
<tr>
<td>June 30, 2005</td>
<td>$39.23</td>
<td>$29.02</td>
</tr>
<tr>
<td>September 30, 2005</td>
<td>$41.11</td>
<td>$35.56</td>
</tr>
<tr>
<td>December 31, 2005</td>
<td>$38.84</td>
<td>$32.47</td>
</tr>
</tbody>
</table>
FINANCIAL ANALYSTS WHO FOLLOW
CAREER EDUCATION CORPORATION
(AS OF MARCH 2006)

Howard Block
Banc of America Securities
600 Montgomery Street
San Francisco, CA 94111

Sara Gubins
Merrill Lynch
4 World Financial Center
20th Floor
New York, NY 10080

Chris Gutek
Morgan Stanley
555 California Street
San Francisco, CA 94104

Mark Marostica
Piper Jaffray
800 Nicollet Mall
Minneapolis, MN 55402

Steven Barlow
Prudential Equity Group
1 New York Plaza
New York, NY 10292

Amy Junker
Robert W. Baird & Co
777 East Wisconsin Avenue
Milwaukee, WI 53202

Bob Craig
Stifel Nicolaus
200 Public Square
Suite 2950
Cleveland, OH 44114

Mark Hughes
SunTrust Robinson Humphrey
424 Church Street
Nashville, TN 37219

Kelly Flynn
UBS Warburg
1285 Avenue of the Americas
New York, NY 10019

Matt Litfin
William Blair & Company
222 West Adams Street
Chicago, IL 60606

Corey Greendale
First Analysis Securities Corp.
One South Wacker Drive
Suite 3900
Chicago, IL 60606

Bob Craig
Stifel Nicolaus
200 Public Square
Suite 2950
Cleveland, OH 44114

Jeff Silber
Harris Nesbitt
529 Fifth Avenue
New York, NY 10017

Steve B. Sotraidis
President of the Culinary and Health Education Divisions

Gary Bisbee
Lehman Brothers
745 Seventh Avenue
17th Floor
New York, NY 10019

Robert M. McNamara Jr.
Senior Vice President and Chief Compliance Officer

Robert R. Ryan
President of the Culinary and Health Education Divisions

Paul L. Ryan
President of the Culinary and Health Education Divisions

Richard Sellers
Senior Vice President of Marketing and Admissions

Kenneth D. Shore
President of the Gibbs Division

Steve B. Sotraidis
Executive Vice President of Administration

Todd H. Steele
Executive Vice President of Strategic Planning and Development and President of the International and Startup Divisions

BOARD OF DIRECTORS

John M. Larson
Chairman, President and Chief Executive Officer of Career Education Corporation

Patrick K. Pesch
Executive Vice President, Chief Financial Officer and Treasurer of Career Education Corporation

Dennis H. Chookaszian
Former Chairman and Chief Executive Officer of CNA Financial Corporation

Robert E. Dowdell
Former Chief Executive Officer of Marshall & Swift, L.P.

Patrick W. Gross
Founder and Chairman of The Lovell Group

Thomas B. Lally
Former President of Heller Equity Capital Corporation

Steven H. Lesnik
Chairman and Chief Executive Officer of KemperSports Inc.

Keith K. Ogata
President of 3-K Financial Corporation

Leslie T. Thornton
Former Chief of Staff to U.S. Secretary of Education Richard W. Riley and Partner, Dickstein Shapiro Marin and Oshinsky, LLP

SENIOR MANAGEMENT TEAM

John M. Larson
Chairman of the Board, President and Chief Executive Officer

Patrick K. Pesch
Executive Vice President, Chief Financial Officer and Treasurer

Janice L. Block
Senior Vice President, Chief Legal Officer and Corporate Secretary

Steven M. Calbi
Senior Vice President and Chief Internal Auditor

Stephen C. Fireng
President of the University Division

Jacob P. Gruver
President of the Colleges and Academy Divisions

Dr. Patricia A. Kapper
Senior Vice President of Education
Career Education Corporation is a global leader in the field of for-profit postsecondary education. Through its 84 on-site campuses and its two online universities, CEC prepares more than 100,000 students annually for career success in their chosen field.