ONE HUNDRED TWELFTH CONGRESS

Congress of the United States

House of Representatives

COMMITTEE ON OVERSIGHT AND GOVERNMENT REFORM

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http://oversight.house.gov

December 12, 2011

Mr. Steven H. Lesnik
Chairman, President and Chief Executive Officer
Career Education Corporation
231 N. Martingale Road
Schaumburg, IL 60173

Dear Mr. Lesnik:

I am writing to request copies of compensation agreements for you and your senior executives as part of an effort to determine whether your salary, bonuses, and other compensation are appropriately tied to the performance of the students you educate, the vast majority of which pay for their education with federal tax dollars.

Over the past three Congresses, this Committee has held multiple hearings on executive compensation, particularly with respect to companies that receive significant amounts of taxpayer funds.[1] Most recently, on November 16, 2011, the Committee held a hearing with the Chief Executive Officers of Fannie Mae and Freddie Mac, who have received millions of dollars in compensation and bonuses from U.S. taxpayers. As Rep. Patrick McHenry stated during that hearing:

> The concern here today is the extraordinary taxpayer support ... and that is where your compensation becomes a question for the taxpayer.[2]

For-profit education companies like yours receive the majority of their funds from U.S. taxpayers in the form of Title IV loans and grants, Title X tuition assistance, and funds

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[1] *See, e.g.,* House Committee on Oversight and Government Reform, *Hearing on Executive Pay: The Role of Compensation Consultants*, 110th Cong. (Dec. 5, 2007); House Committee on Oversight and Government Reform, *Hearing on AIG Bonuses: Report of the Special Inspector General for the Troubled Asset Relief Program (SIGTARP)*, 111th Cong. (Oct. 14, 2009); House Committee on Oversight and Government Reform, *Hearing on Executive Compensation: How Much Is Too Much?*, 111th Cong. (Oct. 28, 2009).

[2] House Committee on Oversight and Government Reform, *Hearing on Pay for Performance: Should Fannie and Freddie Executives Be Receiving Millions in Bonuses?* (Nov. 16, 2011).

distributed pursuant to the Veterans Education Assistance Act. In 2010, your company reported receiving approximately 82% of your total revenues of $2.1 billion from Title IV payments alone.[3]

In the same year, your company reported awarding its executives $11.5 million in compensation, and your predecessor personally received $4.6 million, including salary, stock options, and bonus awards.[4] Yet, your company reported dedicating only 34% of its operating expenses to educational costs in 2010.[5] In addition, your institution's three-year Cohort Default Rate (CDR) ending in 2010 was 21.6%, meaning that more than one in five students defaulted on their student loan payments.[6]

In order to investigate more thoroughly how the structure of your executive compensation packages affects the performance of students educated with taxpayer funds, I request that you produce full, unredacted copies of compensation agreements that are currently in effect for you and all other executive officers named in your most recent Definitive Proxy Statement as well as the agreement that was in effect for your predecessor. This should include any agreements controlling salary, stock options, bonus awards, and any other types of compensation. I also request that you produce documents demonstrating how compensation for these officials was calculated and awarded pursuant to these agreements for work in 2010.

I request that you produce these documents by December 23, 2011. If you have any questions, please contact Leah Perry at (202) 225-5051. Thank you for your cooperation with this request.

Sincerely,

Elijah E. Cummings
Ranking Member

cc: The Honorable Darrell E. Issa, Chairman
Committee on Oversight and Government Reform

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[3] Career Education Corporation, *Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934* (Fiscal Year Ended Dec. 31, 2010) (signed Feb. 22, 2011) (online at www.sec.gov/Archives/edgar/data/1046568/000119312511041891/d10k.htm).

[4] Career Education Corporation, *Proxy Statement Pursuant to Section 14(a) of the Securities Exchange Act of 1934* (issued Apr. 1, 2011) (online at www.sec.gov/Archives/edgar/data/1046568/000119312511085383/ddef14a.htm).

[5] *Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934, supra,* note 3.

[6] Department of Education and Height Analytics, LLC, *For-Profit Company CDR Analysis Using Recalculated Three-Year 2008 Rates* (Apr. 2011).