

CAREER EDUCATION CORP
Form 10-Q
August 06, 2015
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark one)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2015

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 or other jurisdiction of
incorporation or organization)

36-3932190
(I.R.S. Employer
Identification No.)

231 N. Martingale Road

Schaumburg, Illinois
(Address of principal executive offices)

60173
(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 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 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 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 Exchange Act. Yes No

Number of shares of registrant's common stock, par value \$0.01, outstanding as of July 30, 2015: 67,947,694

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Table of Contents**CAREER EDUCATION CORPORATION AND SUBSIDIARIES****CONDENSED CONSOLIDATED BALANCE SHEETS****(In thousands, except share amounts)**

ASSETS	June 30, 2015 (unaudited)	December 31, 2014
CURRENT ASSETS:		
Cash and cash equivalents, unrestricted	\$ 63,266	\$ 93,832
Restricted cash	13,438	22,938
Short-term investments	120,026	122,858
Total cash and cash equivalents, restricted cash and short-term investments	196,730	239,628
Student receivables, net of allowance for doubtful accounts of \$12,666 and \$12,398 as of June 30, 2015 and December 31, 2014, respectively	25,872	24,564
Receivables, other, net	4,472	18,925
Prepaid expenses	17,513	14,679
Inventories	2,668	3,305
Other current assets	1,852	2,384
Assets held for sale	66,541	76,846
Assets of discontinued operations	280	473
Total current assets	315,928	380,804
NON-CURRENT ASSETS:		
Property and equipment, net	57,946	73,083
Goodwill	87,356	87,356
Intangible assets, net	7,900	9,819
Student receivables, net of allowance for doubtful accounts of \$1,616 and \$2,119 as of June 30, 2015 and December 31, 2014, respectively	2,887	2,926
Other assets	17,506	18,571
Assets of discontinued operations	853	975
TOTAL ASSETS	\$ 490,376	\$ 573,534
LIABILITIES AND STOCKHOLDERS EQUITY		
CURRENT LIABILITIES:		
Short-term borrowings	\$	\$ 10,000
Accounts payable	17,636	21,968
Accrued expenses:		
Payroll and related benefits	31,754	29,545
Advertising and production costs	12,735	13,162
Income taxes	1,545	1,633

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Other	17,884	21,440
Deferred tuition revenue	37,105	37,572
Liabilities held for sale	44,999	50,357
Liabilities of discontinued operations	13,343	15,506
Total current liabilities	177,001	201,183
NON-CURRENT LIABILITIES:		
Deferred rent obligations	39,883	48,381
Other liabilities	20,040	19,178
Liabilities of discontinued operations	14,984	22,859
Total non-current liabilities	74,907	90,418
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; 82,841,253 and 82,336,689 shares issued, 67,948,036 and 67,521,038 shares outstanding as of June 30, 2015 and December 31, 2014, respectively	828	823
Additional paid-in capital	608,935	606,531
Accumulated other comprehensive loss	(701)	(853)
Retained deficit	(155,007)	(109,403)
Cost of 14,893,217 and 14,815,651 shares in treasury as of June 30, 2015 and December 31, 2014, respectively	(215,587)	(215,165)
Total stockholders equity	238,468	281,933
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	\$ 490,376	\$ 573,534

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

Table of Contents**CAREER EDUCATION CORPORATION AND SUBSIDIARIES****UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS****(In thousands, except per share amounts)**

	For the Quarter Ended June 30,		For the Year to Date Ended June 30,	
	2015	2014	2015	2014
REVENUE:				
Tuition and registration fees	\$ 173,963	\$ 185,136	\$ 355,364	\$ 382,045
Other	817	1,036	1,718	2,281
Total revenue	174,780	186,172	357,082	384,326
OPERATING EXPENSES:				
Educational services and facilities	53,949	59,001	108,900	120,639
General and administrative	121,365	129,051	260,513	277,497
Depreciation and amortization	7,113	9,368	13,898	19,313
Asset impairment	1,685	3	7,704	77
Total operating expenses	184,112	197,423	391,015	417,526
Operating loss	(9,332)	(11,251)	(33,933)	(33,200)
OTHER (EXPENSE) INCOME:				
Interest income	222	285	382	391
Interest expense	(170)	(108)	(332)	(189)
Loss on sale of business	(917)		(917)	
Miscellaneous expense	(21)	(590)	(408)	(108)
Total other (expense) income	(886)	(413)	(1,275)	94
PRETAX LOSS	(10,218)	(11,664)	(35,208)	(33,106)
(Benefit from) provision for income taxes	(747)	1,854	(958)	2,074
LOSS FROM CONTINUING OPERATIONS	(9,471)	(13,518)	(34,250)	(35,180)
LOSS FROM DISCONTINUED OPERATIONS, net of tax	(11,252)	(33,046)	(11,354)	(69,527)
NET LOSS	(20,723)	(46,564)	(45,604)	(104,707)
OTHER COMPREHENSIVE LOSS, net of tax:				
Unrealized (losses) gains on investments	(43)	(107)	152	(135)

COMPREHENSIVE LOSS	\$ (20,766)	\$ (46,671)	\$ (45,452)	\$ (104,842)
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NET LOSS PER SHARE - BASIC and DILUTED:

Loss from continuing operations	\$ (0.14)	\$ (0.20)	\$ (0.51)	\$ (0.52)
Loss from discontinued operations	(0.17)	(0.49)	(0.16)	(1.04)

Net loss per share	\$ (0.31)	\$ (0.69)	\$ (0.67)	\$ (1.56)
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WEIGHTED AVERAGE SHARES**OUTSTANDING:**

Basic and Diluted	67,893	67,157	67,714	67,076
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The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

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	For the Year to Date Ended June 30,	
	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	\$ (45,604)	\$ (104,707)
Adjustments to reconcile net loss to net cash used in operating activities:		
Asset impairment	17,391	7,521
Depreciation and amortization expense	13,899	29,825
Bad debt expense	9,138	12,409
Compensation expense related to share-based awards	1,470	2,361
Loss on sale of businesses, net	917	311
Loss on disposition of property and equipment	3	32
Changes in operating assets and liabilities	(23,809)	(29,037)
Net cash used in operating activities	(26,595)	(81,285)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of available-for-sale investments	(33,707)	(121,590)
Sales of available-for-sale investments	36,051	28,726
Purchases of property and equipment	(4,994)	(7,031)
Payments of cash upon sale of businesses	(2,018)	(250)
Other		(11)
Net cash used in investing activities	(4,668)	(100,156)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Issuance of common stock	939	392
Payment on borrowings	(10,000)	
Change in restricted cash	9,500	636
Net cash provided by financing activities	439	1,028
EFFECT OF FOREIGN CURRENCY EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS:		
	258	78
NET DECREASE IN CASH AND CASH EQUIVALENTS	(30,566)	(180,335)
DISCONTINUED OPERATIONS CASH ACTIVITY INCLUDED ABOVE:		
Add: Cash balance of discontinued operations, beginning of the period		475
Less: Cash balance of discontinued operations, end of the period		

CASH AND CASH EQUIVALENTS, beginning of the period	93,832	318,468
CASH AND CASH EQUIVALENTS, end of the period	\$ 63,266	\$ 138,608

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

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CAREER EDUCATION CORPORATION AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. DESCRIPTION OF THE COMPANY

Career Education's academic institutions offer a high-quality education to a diverse student population in a variety of disciplines through online, on-ground and hybrid learning programs. Our two universities—American InterContinental University (AIU) and Colorado Technical University (CTU)—provide degree programs through the master's or doctoral level as well as associate and bachelor's levels. Both universities predominantly serve students online with career-focused degree programs that meet the educational demands of today's busy adults. AIU and CTU continue to show innovation in higher education, advancing new personalized learning technologies like their intellipath adaptive learning platform that allow students to more efficiently move toward earning a degree by receiving course credit for knowledge they can already demonstrate. Career Education is committed to providing high-quality education that closes the gap between learners who seek to advance their careers and employers needing a qualified workforce.

A detailed listing of individual campus locations and web links to Career Education's colleges, institutions and universities can be found at www.careered.com.

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 college, institution, 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 colleges, institutions or universities.

2. BASIS OF PRESENTATION

The accompanying unaudited condensed 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 June 30, 2015 are not necessarily indicative of the results that may be expected for the year ending December 31, 2015.

The unaudited condensed consolidated financial statements presented herein include the accounts of CEC and our wholly-owned subsidiaries (collectively, CEC). All intercompany transactions and balances have been eliminated.

On May 1, 2015, the Board of Directors of the Company approved the teach out of the Company's remaining 15 Sanford-Brown campuses and the pursuit of divestiture options for the Company's three additional Career Colleges campuses: Briarcliffe College, Brooks Institute and Missouri College. These campuses are reported within our Transitional Group segment as of June 30, 2015 in accordance with ASC Topic 280 *Segment Reporting*.

As of June 30, 2015, we organized our business across three reporting segments: CTU, AIU (comprises University Group); and Transitional Group. Campuses included in our Transitional Group segment are those (i) currently being taught out and therefore no longer enrolling new students, (ii) campuses that completed their teach-out subsequent to January 1, 2015 or (iii) that have either been sold or are held for sale and which decisions were made subsequent to January 1, 2015. Those campuses in teach-out employ a gradual teach-out process, enabling them to continue to operate while current students complete their course of study. As a result of the change within our Transitional Group

segment, all prior periods were recast to reflect our segments on a comparable basis and our results of operations for these campuses are recorded within continuing operations as part of the Transitional Group segment for all periods presented.

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Effective January 1, 2015, ASC Topic 360 *Property, Plant and Equipment*, limits discontinued operations reporting and thus as campuses cease teach-out operations going forward, the results of operations for these campuses will remain within the results of continuing operations. Prior to January 1, 2015, campuses met the criteria for discontinued operations upon completion of the teach-out. During the second quarter of 2015, the Company completed the teach-out of two Transitional Group campuses, Sanford-Brown Cleveland and Sanford-Brown Fenton, which continue to be reported under the Transitional Group as of June 30, 2015.

During the second quarter of 2015, the Company completed the sale of its Brooks Institute and signed a definitive agreement to sell its Missouri College campus with an expected closing date during the third quarter of 2015. As a result, the assets and liabilities of Missouri College are classified as held for sale within continuing operations as of June 30, 2015. The historical results of operations for Brooks Institute continue to be reported within continuing operations and the loss on sale for this campus is reported within other (expense) income on our consolidated statements of loss and comprehensive loss.

3. RECENT ACCOUNTING PRONOUNCEMENTS

In June 2015, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2015-10, *Technical Corrections and Improvements*. This ASU represent changes to clarify the FASB Codification (Codification), correct unintended application of guidance, or make minor improvements to the Codification that are not expected to have a significant effect on current accounting practice or create significant administrative cost to most entities. The amendments are intended to make the Codification easier to understand and easier to apply by eliminating inconsistencies by providing needed clarifications and improving the presentation of guidance. For all entities, ASU 2015-10 is effective for annual periods and interim periods within those annual periods beginning after December 15, 2015; early adoption is permitted. We are currently evaluating changes to the applicable Codifications and do not believe the adoption will significantly impact the presentation of our financial condition, results of operations and disclosures.

In April 2015, the FASB issued ASU No. 2015-03, *Interest Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs*. This ASU is intended to simplify the presentation of debt issuance costs. The amendments in this ASU require that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The amendments in this ASU are effective for annual periods and interim periods within those annual periods beginning after December 15, 2015; early adoption is permitted. We are currently evaluating this guidance and do not believe the adoption will significantly impact the presentation of our financial condition, results of operations and disclosures.

In January 2015, the FASB issued ASU No. 2015-01, *Income Statement Extraordinary and Unusual Items (Subtopic 225-20): Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items*. This ASU eliminates from GAAP the concept of extraordinary items. Subtopic 225-20 previously required that an entity separately classify, present, and disclose extraordinary events and transactions from the results of ordinary operations and show the items separately. The amendments in this ASU are effective for annual periods and interim periods within thos