CAREER EDUCATION CORP
Form 10-Q
August 01, 2018

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, 2018

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 (§ 232.405 of this chapter) 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, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth 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
Emerging growth company		

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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 25, 2018: 69,723,488

CAREER EDUCATION CORPORATION

FORM 10-Q

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CAREER EDUCATION CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except share amounts)

ASSETS	June 30, 2018 (unaudited)	December 31, 2017
CURRENT ASSETS:		
Cash and cash equivalents, unrestricted	$ 33,175	$ 18,110
Restricted cash	789	789
Restricted short-term investments	4,570	5,070
Short-term investments	151,571	156,178
Total cash and cash equivalents, restricted cash and short-term investments	190,105	180,147
Student receivables, net of allowance for doubtful accounts of $22,098 and $20,533 as of June 30, 2018 and December 31, 2017, respectively	24,992	18,875
Receivables, other, net	1,948	1,163
Prepaid expenses	10,957	7,722
Inventories	914	1,112
Other current assets	1,607	1,319
Assets of discontinued operations	171	382
Total current assets	230,694	210,720
NON-CURRENT ASSETS:		
Property and equipment, net of accumulated depreciation of $196,487 and $213,825 as of June 30, 2018 and December 31, 2017, respectively	30,829	33,230
Goodwill	87,356	87,356
Intangible assets, net of amortization of $1,400 as of both June 30, 2018 and December 31, 2017	7,900	7,900
Student receivables, net of allowance for doubtful accounts of $2,170 and $2,001 as of June 30, 2018 and December 31, 2017, respectively	2,334	2,548
Deferred income tax assets, net	91,443	98,084
Other assets	6,649	5,673
Assets of discontinued operations	1,585	1,585
TOTAL ASSETS	$ 458,790	$ 447,096
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 11,297	$ 8,515
Accrued expenses:		
Payroll and related benefits	22,895	32,910
Advertising and marketing costs	9,945	9,245
Income taxes	1,762	2,185
Other	33,834	31,233
Deferred revenue	23,050	22,897
Liabilities of discontinued operations	3,125	5,701

Total current liabilities	105,908	112,686
NON-CURRENT LIABILITIES:		
Deferred rent obligations	14,827	15,277
Other liabilities	15,138	22,143
Liabilities of discontinued operations	-	785
Total non-current liabilities	29,965	38,205
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; 85,115,123 and 84,279,533 shares issued, 69,723,487 and 69,117,803 shares outstanding as of June 30, 2018 and December 31, 2017, respectively	851	843
Additional paid-in capital	624,869	621,008
Accumulated other comprehensive loss	(356)	(164)
Accumulated deficit	(81,874)	(108,127)
Treasury stock, at cost; 15,391,636 and 15,161,730 shares as of June 30, 2018 and December 31, 2017, respectively	(220,573)	(217,355)
Total stockholders' equity	322,917	296,205
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 458,790	$ 447,096

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

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CAREER EDUCATION CORPORATION AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME (In thousands, except per share amounts)

	For the Quarter Ended June 30, 2018	For the Quarter Ended June 30, 2017	For the Year to Date Ended June 30, 2018	For the Year to Date Ended June 30, 2017
REVENUE:				
Tuition and fees	$141,344	$145,507	$288,854	$306,884
Other	692	715	1,247	1,447
Total revenue	142,036	146,222	290,101	308,331
OPERATING EXPENSES:				
Educational services and facilities	30,290	36,406	57,236	76,579
General and administrative	98,340	96,836	196,348	205,081
Depreciation and amortization	2,103	3,876	4,685	7,786
Total operating expenses	130,733	137,118	258,269	289,446
Operating income	11,303	9,104	31,832	18,885
OTHER INCOME:				
Interest income	742	464	1,376	854
Interest expense	(106)	(113)	(215)	(226)
Miscellaneous (expense) income	(135)	253	193	293
Total other income	501	604	1,354	921
PRETAX INCOME	11,804	9,708	33,186	19,806
Provision for income taxes	2,940	5,045	6,438	9,546
INCOME FROM CONTINUING OPERATIONS	8,864	4,663	26,748	10,260
LOSS FROM DISCONTINUED OPERATIONS, net of tax	(113)	(377)	(495)	(797)
NET INCOME	8,751	4,286	26,253	9,463
OTHER COMPREHENSIVE (LOSS) INCOME, net of tax:				
Foreign currency translation adjustments	(168)	222	(82)	263
Unrealized gain (loss) on investments	108	11	(110)	34
Total other comprehensive (loss) income	(60)	233	(192)	297
COMPREHENSIVE INCOME	$8,691	$4,519	$26,061	$9,760
NET INCOME (LOSS) PER SHARE - BASIC:				
Income from continuing operations	$0.13	$0.07	$0.39	$0.15
Loss from discontinued operations	-	(0.01)	(0.01)	(0.01)
Net income per share	$0.13	$0.06	$0.38	$0.14
NET INCOME (LOSS) PER SHARE - DILUTED:				
Income from continuing operations	$0.12	$0.07	$0.38	$0.14
Loss from discontinued operations	-	(0.01)	(0.01)	(0.01)
Net income per share	$0.12	$0.06	$0.37	$0.13

WEIGHTED AVERAGE SHARES OUTSTANDING:				
Basic	69,668	69,025	69,443	68,803
Diluted	71,562	70,884	71,239	70,590

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

CAREER EDUCATION CORPORATION AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

	For the Year to Date Ended June 30, 2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$26,253	$9,463
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization expense	4,685	7,786
Bad debt expense	13,679	15,112
Compensation expense related to share-based awards	2,698	2,326
Deferred income taxes	6,641	8,744
Changes in operating assets and liabilities	(39,202)	(77,677)
Net cash provided by (used in) operating activities	14,754	(34,246)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of available-for-sale investments	(101,043)	(145,088)
Sales of available-for-sale investments	106,139	169,480
Purchases of property and equipment	(2,737)	(2,146)
Net cash provided by investing activities	2,359	22,246
CASH FLOWS FROM FINANCING ACTIVITIES:		
Issuance of common stock	1,170	2,459
Payments of employee tax associated with stock compensation	(3,218)	(1,101)
Net cash (used in) provided by financing activities	(2,048)	1,358
EFFECT OF FOREIGN CURRENCY EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS:	-	33
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	15,065	(10,609)
CASH AND CASH EQUIVALENTS, beginning of the period	18,899	50,882
CASH AND CASH EQUIVALENTS, end of the period	$33,964	$40,273

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

CAREER EDUCATION CORPORATION AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. DESCRIPTION OF THE COMPANY

Career Education's academic institutions offer a quality education to a diverse student population in a variety of disciplines through online, campus-based and blended 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 are designed to 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® learning platform. Career Education is committed to providing quality education that closes the gap between learners who seek to advance their careers and employers needing a qualified workforce.

Additionally, CEC is in the process of teaching out campuses within our All Other Campuses segment. Students enrolled at these campuses have been afforded the reasonable opportunity to complete their program of study prior to the final teach-out date.

A listing of our University Group locations and web links to these institutions 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, for-profit 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 and year to date ended June 30, 2018 are not necessarily indicative of the results that may be expected for the full year ending December 31, 2018.

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

Our reporting segments are determined in accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 280 – Segment Reporting and are based upon how the Company analyzes performance and makes decisions. Each segment represents a group of postsecondary education providers that offer a variety of academic programs. We organize our business across three reporting segments: CTU, AIU (comprises University Group) and All Other Campuses (formerly separately reported as Culinary Arts and Transitional Group). Campuses included in our All Other Campuses segment are currently being taught out and no longer enroll new students or have completed their teach-out. These campuses employ a gradual teach-out process, enabling them to continue to operate while current students have a reasonable opportunity to complete their program of study.

During the second quarter of 2018, the Company completed the teach-out of three campuses: Briarcliffe Bethpage, Sanford-Brown Seattle and Sanford-Brown Online, which continue to be reported within the All Other Campuses segment as of June 30, 2018 in accordance with ASC Topic 360 – Property, Plant and Equipment, which limits discontinued operations reporting.

Effective January 1, 2018, we have implemented FASB ASC Topic 606 – Revenue from Contracts with Customers. This guidance supersedes all previously issued revenue recognition guidance. As a result of this change in accounting guidance, we have updated our revenue recognition policies and disclosures. The guidance under Topic 606 did not impact the amount of revenue we recognized in previous periods, and also does not impact the amount of revenue recognized prospectively as our revenue recognition methodology remained relatively the same under the new guidance. The guidance under Topic 606 did impact our presentation of financial condition and disclosures. Previously, a student’s entire accounts receivable balance along with their deferred revenue balance was evaluated to determine the net position of the two and the proper reporting of that balance within student receivables, net, or within deferred revenue, net, on our condensed consolidated balance sheets. Under Topic 606, we now separate the contract asset balance from the student receivable balance to determine the amount reported as deferred revenue on the condensed consolidated balance sheets for each student. See Note 5 “Revenue Recognition” for more information.

3. RECENT ACCOUNTING PRONOUNCEMENTS

Recent accounting guidance adopted in 2018

In June 2018, the FASB issued ASU No. 2018-07, Compensation – Stock Compensation (Topic 718): Improvements to Non-Employee Share-Based Payment Accounting. This amendment in this ASU expanded the accounting scope to include share-based payments issued to non-employees for goods or services to substantially align with share-based payments issue to employees. For public entities, ASU 2018-07 is effective for annual reporting periods and interim periods beginning after December 15, 2018; early adoption is permitted. We have evaluated and early adopted this guidance effective 2018. The adoption did not significantly impact the presentation of our financial condition, results of operations and disclosures.

In March 2018, the FASB issued ASU No. 2018-05, Income Taxes (Topic 740): Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 118. The amendments in this ASU allows public companies to record provisional amounts in their annual and interim financial statements using an approach similar to the "measurement period" that US GAAP permits in connection with the accounting for a recently acquired business. During the measurement period, management records provisional amounts for the effects of the tax law changes that can be reasonably estimated. If the finalization of the effect results in a different number, the adjustment to the provisional amount that was initially recorded does not represent the correction of an error. Instead, the adjustment is recorded to income tax expense in the period it is identified. For all entities, ASU 2018-05 is effective for annual periods and interim periods upon discovery. We have evaluated and adopted this guidance beginning 2018. The adoption did not significantly impact the presentation of our financial condition, results of operations and disclosures.

In February 2017, the FASB issued ASU No. 2017-05, Other Income - Gains and Losses from the Derecognition of Nonfinancial Assets (Subtopic 610-20): Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets. The amendments in this ASU clarify and provide guidance for partial sales of nonfinancial assets and recognizing gains and losses from the transfer of nonfinancial assets in contracts with noncustomers. For all public entities, ASU 2017-05 is effective for annual reporting periods and interim periods beginning after December 15, 2017. We have evaluated and adopted this guidance beginning 2018. The adoption did not significantly impact the presentation of our financial condition, results of operations and disclosures.

In October 2016, the FASB issued ASU No. 2016-16, Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory. The amendments in this ASU improve the accounting for the income tax consequences of intra-entity transfers of assets other than inventory by reducing complexity in accounting standards. The amendments eliminate the exception prohibiting the recognition of current and deferred income taxes for an intra-entity transfer of an asset other than inventory until the asset has been sold to an outside party. For all public entities, ASU 2016-16 is effective for annual periods and interim periods beginning after December 15, 2017. We have evaluated and adopted this guidance beginning 2018. The adoption did not significantly impact the presentation of our financial condition, results of operations and disclosures.

In August 2016, the FASB issued ASU No. 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments. The amendments in this ASU address eight specific cash flow issues with the objective of reducing the existing diversity in practice in how certain cash receipts and cash payments are presented and classified in the statement of cash flows under Topic 230. The eight topics include debt prepayment or extinguishments costs, settlement of zero-coupon debt instruments, contingent consideration payments made after a business combination, proceeds from settlement of insurance claims, proceeds from settlement of corporate-owned life insurance policies, distributions received from equity method investees, beneficial interests in securitization transactions and separately identifiable cash flows and application of the predominance principle. For all public business entities, ASU 2016-15 is effective for annual periods and interim periods beginning after December 15, 2017. We have evaluated and adopted this guidance beginning 2018. The adoption did not significantly impact the presentation of our financial condition, results of operations and disclosures.

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606), a new accounting standard intended to improve and converge the financial reporting requirements between U.S. GAAP and International Financial Reporting Standards, which supersedes virtually all existing revenue recognition guidance under GAAP. The fundamental principles of the new guidance are that companies should recognize revenue in a manner that reflects the timing of the transfer of services to customers and the amount of revenue recognized reflects the consideration that a company expects to receive for the goods and services provided. The new guidance establishes a five step approach for the recognition of revenue. For all public business entities, ASU No. 2014-09 is effective for annual periods and interim periods beginning after December 15, 2017. We completed the assessment of our evaluation of the new standard on our accounting policies, processes and system requirements and adopted this guidance beginning 2018. We have adopted this guidance using the modified retrospective approach which applies to contracts that have remaining obligations as of January 1, 2018 and new contracts entered into subsequent to January 1, 2018. Under the modified retrospective approach, we do not restate comparative periods on our condensed consolidated financial statements. The adoption impacted the presentation of our financial condition and disclosures but did not impact our results of operations. See Note 5 “Revenue Recognition” for more information.

Recent accounting guidance not yet adopted

In February 2018, the FASB issued ASU No. 2018-02, Income Statement – Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income. The amendments in this ASU provide financial statement preparers with an option to reclassify stranded tax effects within accumulated other comprehensive income

(“AOCI”) to retained earnings in each period when the effect of the change in the U.S. federal corporate income tax rate in the Tax Cuts and Jobs Act is recorded. For all entities, ASU 2018-02 is effective for annual periods and interim periods beginning after December 15, 2018; early adoption is permitted. We are currently evaluating this guidance and believe the adoption will not significantly impact the presentation of our financial condition, results of operations and disclosure.

In June 2016, the FASB issued ASU No. 2016-13, Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. The amendments in this ASU require a financial asset measured at amortized cost basis to be presented at the net amount expected to be collected and credit losses relating to available-for-sale debt securities to be recorded through an allowance for credit losses. For all public business entities, ASU 2016-13 is effective for annual periods and interim periods beginning after December 15, 2019; early adoption is permitted for all organizations for annual periods and interim periods beginning after December 15, 2018. We are currently evaluating this guidance and believe the adoption will not significantly impact the presentation of our financial condition, results of operations and disclosures.

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842). The objective of Topic 842 is to establish transparency and comparability that lessees and lessors shall apply to report useful information to users of financial statements about the amount, timing, and uncertainty of cash flows arising from a lease. The core principle of Topic 842 is that lessees should recognize the assets and liabilities that arise from leases. All leases create an asset and liability for the lessee in accordance with FASB Concept Statements No. 6 Elements of Financial Statements, and, therefore, recognition of those lease assets and liabilities represents an improvement over previous GAAP. The accounting applied for lessors largely remained unchanged. The amendment in this ASU requires recognition of a lease liability and a right of use asset at the lease inception date. For all public business entities, ASU 2016-02 is effective for annual periods and interim periods beginning after December 15, 2018; early adoption is permitted. While we are continuing to assess all potential impacts of the standard, we currently believe the most significant impact primarily relates to our accounting for real estate leases and real estate subleases. We expect to have a material amount now reported as a right of use asset and lease liability related to these leases as well as expect to separate lease components from the non-lease components for recognition. Based on the current ASU, we will be required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach beginning with January 1, 2017. We are currently evaluating this guidance and believe the adoption will significantly impact the presentation of our financial condition and disclosures, but will not significantly impact our results of operations.

4. FINANCIAL INSTRUMENTS

Investments consist of the following as of June 30, 2018 and December 31, 2017 (dollars in thousands):

	June 30, 2018			
		Gross Unrealized		
	Cost	Gain	(Loss)	Fair Value
Short-term investments (available for sale):				
Non-governmental debt securities	$128,511	$17	$(336)	$128,192
Treasury and federal agencies	23,518	1	(140)	23,379
Total short-term investments	152,029	18	(476)	151,571
Restricted short-term investments (available for sale):				
Non-governmental debt securities	4,570	-	-	4,570
Total investments (available for sale)	$156,599	$18	$(476)	$156,141

	December 31, 2017			
		Gross Unrealized		
	Cost	Gain	(Loss)	Fair Value
Short-term investments (available for sale):				
Municipal bonds	$830	$-	$-	$830
Non-governmental debt securities	125,485	7	(222)	125,270
Treasury and federal agencies	30,211	-	(133)	30,078
Total short-term investments	156,526	7	(355)	156,178
Restricted short-term investments (available for sale):				
Non-governmental debt securities	5,070	-	-	5,070
Total investments (available for sale)	$161,596	$7	$(355)	$161,248

In the table above, unrealized holding gains (losses) as of June 30, 2018 relate to short-term investments that have been in a continuous unrealized gain (loss) position for less than one year.

Our unrestricted non-governmental debt securities primarily consist of commercial paper and certificates of deposit. Our treasury and federal agencies primarily consist of U.S. Treasury bills and federal home loan debt securities. We do not intend to sell our investments in these securities prior to maturity and it is not likely that we will be required to sell these investments before recovery of the amortized cost basis. Our restricted short-term investments are comprised entirely of certificates of deposit, which secure our letters of credit.

Fair Value Measurements

FASB ASC Topic 820 – Fair Value Measurements establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value. These tiers include: Level 1, defined as observable inputs such as quoted prices in active markets; Level 2, defined as inputs other than quoted prices in active markets that are either directly or indirectly observable; and Level 3, defined as unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions.

As of June 30, 2018, we held investments that are required to be measured at fair value on a recurring basis. These investments (available-for-sale) consist of non-governmental debt securities, and treasury and federal agencies securities. Available for sale securities included in Level 1 are valued at quoted prices in active markets for identical assets and liabilities. Available for sale securities included in Level 2 are estimated based on observable inputs other than quoted prices in active markets for identical assets and liabilities, such as quoted prices for identical or similar assets or liabilities in inactive markets or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Investments measured at fair value on a recurring basis subject to the disclosure requirements of FASB ASC Topic 820 – Fair Value Measurements at June 30, 2018 and December 31, 2017 were as follows (dollars in thousands):

	As of June 30, 2018			
	Level 1	Level 2	Level 3	Total
Non-governmental debt securities	$15,000	$117,762	$ -	$132,762
Treasury and federal agencies	-	23,379	-	23,379
Totals	$15,000	$141,141	$ -	$156,141

	As of December 31, 2017			
	Level 1	Level 2	Level 3	Total
Municipal bonds	$-	$830	$ -	$830
Non-governmental debt securities	31,500	98,840	-	130,340
Treasury and federal agencies	-	30,078	-	30,078
Totals	$31,500	$129,748	$ -	$161,248

Equity Method Investment

Our investment in an equity affiliate, which is recorded within other noncurrent assets on our condensed consolidated balance sheets, represents an international investment in a private company. As of June 30, 2018, our investment in an equity affiliate equated to a 30.7%, or $3.0 million, non-controlling interest in CCKF, a Dublin-based educational technology company providing intelligent systems to power the delivery of individualized and personalized learning.

During the quarters ended June 30, 2018 and 2017, we recorded approximately $0.2 million of loss and $0.1 million of gain, respectively, and during the years to date ended June 30, 2018 and June 30, 2017, we recorded $0.1 million of loss for each of the respective periods, related to our proportionate investment in CCKF within miscellaneous (expense) income on our unaudited condensed consolidated statements of income and comprehensive income.

We make periodic operating maintenance payments related to proprietary rights that we use in our intellipath® personalized learning technology. The total fees paid to CCKF for the quarters and years to date ended June 30, 2018 and 2017 were as follows (dollars in thousands):

	Maintenance Fee Payments
For the quarter ended June 30, 2018	$ 377
For the quarter ended June 30, 2017	$ 332
For the year to date ended June 30, 2018	$ 753
For the year to date ended June 30, 2017	$ 657

Credit Agreement

During the fourth quarter of 2015, the Company; its wholly-owned subsidiary, CEC Educational Services, LLC (“CEC-ES”); and the subsidiary guarantors thereunder entered into a Fourth Amendment to its Amended and Restated Credit Agreement dated as of December 30, 2013 (as amended, the “Credit Agreement”) with BMO Harris Bank N.A., in its capacities as the initial lender and letter of credit issuer thereunder and the administrative agent for the lenders which from time to time may be parties to the Credit Agreement, to among other things, decrease the revolving credit facility to $95.0 million and require pre-approval by the lenders for each credit extension (other than letter of credit extensions) occurring after December 31, 2015. The revolving credit facility under the Credit Agreement is scheduled to mature on December 31, 2018. The loans and letter of credit obligations under the Credit Agreement are required to be secured by 100% cash collateral. As of June 30, 2018 and December 31, 2017, there were no outstanding borrowings under the revolving credit facility.

5. REVENUE RECOGNITION

Disaggregation of Revenue

The following tables disaggregate our revenue by major source (dollars in thousands):

	For the Quarter Ended June 30, 2018				For the Year to Date Ended June 30, 2018			
	CTU	AIU	All Other Campuses	Total	CTU	AIU	All Other Campuses	Total
Tuition	$89,291	$46,654	$ 160	$136,105	$180,025	$97,785	$ 491	$278,301
Technology fees	2,857	1,784	-	4,641	5,731	3,624	-	9,355
Other miscellaneous fees(1)	489	90	19	598	989	190	19	1,198
Total tuition and fees	92,637	48,528	179	141,344	186,745	101,599	510	288,854
Other revenue(2)	629	51	12	692	1,128	101	18	1,247
Total revenue	$93,266	$48,579	$ 191	$142,036	$187,873	$101,700	$ 528	$290,101

	For the Quarter Ended June 30, 2017				For the Year to Date Ended June 30, 2017			
	CTU	AIU	All Other Campuses	Total	CTU	AIU	All Other Campuses	Total
Tuition	$87,355	$44,436	$ 8,697	$140,488	$177,560	$96,655	$ 22,406	$296,621
Technology fees	2,769	1,597	-	4,366	5,562	3,455	-	9,017
Other miscellaneous fees(1)	526	117	10	653	1,022	205	19	1,246
Total tuition and fees	90,650	46,150	8,707	145,507	184,144	100,315	22,425	306,884
Other revenue(2)	554	65	96	715	1,095	153	199	1,447
Total revenue	$91,204	$46,215	$ 8,803	$146,222	$185,239	$100,468	$ 22,624	$308,331

(1) Other miscellaneous fees include graduation fees, laboratory fees and activity fees.
(2) Other revenue primarily includes contract training revenue and bookstore and laptop sales.

Performance Obligations

Our revenue, which is derived primarily from academic programs taught to students who attend our institutions, is generally segregated into two categories: (1) tuition and fees and (2) other. Tuition and fees represent costs to our students for educational services provided by our institutions. Our institutions charge tuition and fees at varying amounts, depending on the institution, the type of program and specific curriculum. Our institutions bill students a single charge that covers tuition, fees and required program materials, such as textbooks and supplies, which we treat as a single performance obligation. Generally, we bill student tuition at the beginning of each academic term, and recognize the tuition as revenue on a straight-line basis over the academic term, which includes any applicable externship period. As part of a student's course of instruction, certain fees, such as technology fees, graduation fees and laboratory fees, are billed to students. These fees are earned over the applicable term and are not considered separate performance obligations.

Other revenue, which consists primarily of contract training revenue and bookstore sales, is billed and recognized as goods are delivered or services are performed. Contract training revenue results from individual training courses that are stand-alone courses and not part of a degree or certificate program. Bookstore sales are primarily initiated by the student and are not included in the enrollment agreement at the onset of a student's entrance to the institution. These types of sales constitute a separate performance obligation from classroom instruction.

Our institutions' academic year is generally at least 30 weeks in length but varies both by institution and program of study and is divided by academic terms or payment periods. Academic terms or payment periods are determined by regulatory requirements mandated by the federal government and/or applicable accrediting body, which also vary by institution and program. Academic terms are determined by start dates, which vary by institution and program and are generally 10 – 11 weeks in length.

Contract Assets

Prior to the adoption of ASC Topic 606, we offset our student receivable balances with deferred revenue on a student by student basis. Deferred revenue was previously stated net of outstanding student receivables on a student-by-student basis as of the end of each reporting period. Upon adoption of ASC Topic 606, we determined that a portion of the student receivable balance which was previously offset with deferred revenue now meets the definition of student receivables and is not considered a contract asset and therefore is no longer offset with deferred revenue. The previously reported balances along with the adjustment and beginning January 1, 2018 balances are provided below (dollars in thousands).

	December 31, 2017	Impact of Modified Retrospective Adoption of ASC 606	January 1, 2018 Post ASC 606 Adoption
Student receivables, net of allowance for doubtful accounts, current	$18,875	$ 6,663	$ 25,538
Deferred revenue	$22,897	$ 6,663	$ 29,560

For each term, the portion of tuition and fee payments received from students but not yet earned is recorded as deferred revenue and reported as a current liability on our condensed consolidated balance sheets, as we expect to earn these revenues within the next year. A contract asset is recorded for each student for the current term for which they are enrolled for the amount charged for the current term that has not yet been received as payment and to which we do not have the unconditional right to receive payment because the student has not reached the point in the student's current academic term at which the amount billed is no longer refundable to the student. On a student by student basis, the contract asset is offset against the deferred revenue balance for the current term and the net deferred revenue balance is reflected within current liabilities on our condensed consolidated balance sheets.

Due to the short-term nature of our academic terms, the contract asset balance which exists at the beginning of each quarter will no longer be a contract asset at the end of that quarter. The decrease in contract asset balances are a result of one of the following: it becomes a student receivable balance once a student reaches the point in a student's academic term where the amount billed is no longer refundable to the student; a refund to withdrawn students for the portion entitled to be refunded under each institutions' refund policy; or a student makes a change in the number of classes they are enrolled which may cause an adjustment to their previously billed amount. As of the end of each quarter, a new contract asset is determined on a student by student basis based on the most recently started term and a student's progress within that term as compared to the date at which the student is no longer entitled to a refund under each institution's refund policy.

The amount of contract assets which are being offset with deferred revenue balances as of January 1, 2018 and June 30, 2018 were as follows (dollars in thousands):

As of

	January 1, 2018	June 30, 2018
Gross deferred revenue	$39,544	$37,260
Gross contract assets	(9,984)	(14,210)
Deferred revenue, net	$29,560	$23,050

Deferred Revenue

Changes in our deferred revenue balances for the quarter and year to date ended June 30, 2018 were as follows (dollars in thousands):

	For the Quarter Ended June 30, 2018			
	CTU	AIU	All Other Campuses	Total
Gross deferred revenue, April 1, 2018	$24,025	$21,415	$ 142	$45,582
Revenue earned from balances existing as of April 1, 2018	(22,347)	(18,420)	(142)	(40,909)
Billings during period[(1)]	92,201	40,457	99	132,757
Revenue earned for new billings during the period	(70,290)	(30,108)	(37)	(100,435)
Other adjustments	165	92	8	265
Gross deferred revenue, June 30, 2018	$23,754	$13,436	$ 70	$37,260

	For the Year to Date Ended June 30, 2018			
	CTU	AIU	All Other Campuses	Total
Gross deferred revenue, January 1, 2018	$23,933	$15,507	$ 104	$39,544
Revenue earned from balances existing as of January 1, 2018	(22,210)	(14,310)	(104)	(36,624)
Billings during period[(1)]	186,097	99,392	495	285,984
Revenue earned for new billings during the period	(164,535)	(87,289)	(406)	(252,230)
Other adjustments	469	136	(19)	586
Gross deferred revenue, June 30, 2018	$23,754	$13,436	$ 70	$37,260

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(1) Billings during period includes adjustments for prior billings.

Cash Receipts

Our students finance costs through a variety of funding sources, including, among others, federal loan and grant programs, institutional payment plans, employer reimbursement, Veterans' Administration and other military funding and grants, private and institutional scholarships and cash payments. Cash receipts from government related sources are typically received during the current academic term. We typically receive funds after the end of an academic term for students who receive employer reimbursements. Students who have not applied for any type of financial aid generally set up a payment plan with the institution and make payments on a monthly basis per the terms of the payment plan.

If a student withdraws from one of our institutions prior to the completion of the academic term or program period, we refund the portion of tuition and fees already paid that, pursuant to our refund policy and applicable federal and state law and accrediting agency standards, we are not entitled to retain. Generally, the amount to be refunded to a student is calculated based upon the percent of the term attended and the amount of tuition and fees paid by the student as of their withdrawal date. In certain circumstances, we have recognized revenue for students who have withdrawn that we are not entitled to retain. We have estimated a reserve for these limited circumstances based on historical evidence in the amount of $1.0 million as of June 30, 2018. Students are typically entitled to a partial refund through approximately halfway of their term. Pursuant to each institution's policy, once a student reaches the point in the term where no refund is given, the student would not have a refund due if withdrawing from the institution subsequent to that date.

Management reassesses collectability when a student withdraws from the institution and has unpaid tuition charges for the current term which the institution is entitled to retain per the applicable refund policy. Such unpaid charges do not meet the threshold of reasonably collectible and are recognized as revenue in accordance with ASC Topic 606 when cash is received and the contract is terminated and neither party has further performance obligations. We have no remaining performance obligations for students who have withdrawn from our institutions, and once the refund calculation is performed and funds are returned to the student, if applicable under our refund policy, no further consideration is due back to the student. We recognized $0.3 million of revenue for each of the quarters ended June

30, 2018 and 2017 and $0.7 million and $0.8 million for the years to date ended June 30, 2018 and June 30, 2017, respectively, for payments received from withdrawn students.

Significant Judgments

We analyze revenue recognition on a portfolio approach under ASC Topic 606. Significant judgment is utilized in determining the appropriate portfolios to assess for meeting the criteria to recognize revenue under ASC Topic 606. We have determined that all of our students can be grouped into one portfolio. Based on our past experience, students at different campuses, in different programs or with different funding all behave similarly. Enrollment agreements all contain similar terms, refund policies are similar across all institutions and all students work with the campus to obtain some type of funding, for example, Title IV Program funds, Veterans Administration funds, military funding, employer reimbursement or self-pay. We have significant historical data for our students which allows us to analyze collectability. We do not expect that revenue earned for the portfolio is significantly different as compared to revenue that would be earned if we were to assess each student contract separately.

Significant judgment is also required to assess collectability, particularly as it relates to students seeking funding under Title IV Programs. Because students are required to provide documentation, and in some cases extensive documentation, to the Department of Education to be eligible and approved for funding, the timeframe for this process can sometimes span between 90 to 120 days. We monitor the progress of students through the eligibility and approval process and assess collectability for the portfolio each reporting period to monitor that the collectability threshold is met.

For the quarters and years to date ended June 30, 2018 and 2017, we received a majority of our institutions' cash receipts for tuition payments from various government agencies as well as our corporate partnerships which represents a substantial portion of our consolidated revenues and are all low risk of collectability.

6. STUDENT RECEIVABLES

Student receivables represent funds owed to us in exchange for the educational services provided to a student. Student receivables are reflected net of an allowance for doubtful accounts at the end of the reporting period. Student receivables, net, are reflected on our condensed consolidated balance sheets as components of both current and non-current assets. We do not accrue interest on past due student receivables; interest is recorded only upon collection.

Generally, a student receivable balance is written off once it reaches greater than 90 days past due. Although we analyze past due receivables, it is not practical to provide an aging of our non-current student receivable balances as a result of the methodology utilized in determining our earned student receivable balances. Student receivables are recognized on our condensed consolidated balance sheets as they are deemed earned over the course of a student's program and/or term, and therefore cash collections are not applied against specifically dated transactions.

Our standard student receivable allowance estimation methodology considers a number of factors that, based on our collection experience, we believe have an impact on our repayment risk and ability to collect student receivables. Changes in the trends in any of these factors may impact our estimate of the allowance for doubtful accounts. These factors include, but are not limited to: internal repayment history, repayment practices of previous extended payment programs, changes in the current economic, legislative or regulatory environments and the ability to complete the federal financial aid process with students. These factors are monitored and assessed on a regular basis. Overall, our allowance estimation process for student receivables is validated by trending analysis and comparing estimated and actual performance.

Student Receivables Under Extended Payment Plans and Recourse Loan Agreements

To assist students in completing their educational programs, we had previously provided extended payment plans to certain students and also had loan agreements with Sallie Mae and Stillwater National Bank and Trust Company ("Stillwater") which required us to repurchase loans originated by them to our students after a certain period of time. We discontinued providing extended payment plans to students during the first quarter of 2011 and the recourse loan agreements with Sallie Mae and Stillwater ended in March 2008 and April 2007, respectively.

As of June 30, 2018 and December 31, 2017, the amount of non-current student receivables under these programs along with payment plans that are longer than 12 months in duration, net of allowance for doubtful accounts, was $2.3 million and $2.5 million, respectively.

Student Receivables Valuation Allowance

Changes in our current and non-current receivables allowance for the quarters and years to date ended June 30, 2018 and 2017 were as follows (dollars in thousands):

	Balance, Beginning of Period	Charges to Expense (1)	Amounts Written-off	Balance, End of Period
For the quarter ended June 30, 2018	$ 22,551	$ 6,730	$ (5,013)	$ 24,268
For the quarter ended June 30, 2017	$ 24,153	$ 6,918	$ (6,497)	$ 24,574
For the year to date ended June 30, 2018	$ 22,534	$ 13,743	$ (12,009)	$ 24,268
For the year to date ended June 30, 2017	$ 23,142	$ 15,210	$ (13,778)	$ 24,574

(1) Charges to expense include an offset for recoveries of amounts previously written off of $1.2 million for each of the quarters ended June 30, 2018 and 2017, and $2.5 million and $2.7 million for the years to date ended June 30, 2018 and 2017, respectively.

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Fair Value Measurements

The carrying amount reported in our condensed consolidated balance sheets for the current portion of student receivables approximates fair value because of the nature of these financial instruments as they generally have short maturity periods. It is not practicable to estimate the fair value of the non-current portion of student receivables, since observable market data is not readily available, and no reasonable estimation methodology exists.

7. RESTRUCTURING CHARGES

During the past several years, we have carried out reductions in force related to the continued reorganization of our corporate and campus functions to better align with total enrollments and made decisions to teach out a number of campuses, meaning gradually close the campuses through an orderly process. As part of the process to wind down these teach-out campuses, the Company also announced that it will align its corporate overhead to support a more streamlined and focused operating entity. Most notably, we have recorded charges within our All Other Campuses segment and our corporate functions as we continue to align our overall management structure. Each of our teach-out campuses offer current students the reasonable opportunity to complete their course of study. The majority of these teach-out campuses have ceased operations as of June 30, 2018, with the remainder expected to cease operations by December 31, 2018.

The following table details the changes in our accrual for severance and related costs associated with all restructuring events for our continuing operations during the quarters and years to date ended June 30, 2018 and 2017 (dollars in thousands):

	Balance, Beginning of Period	Severance & Related Charges	Payments	Non-cash Adjustments [1]	Balance, End of Period
For the quarter ended June 30, 2018	$ 1,174	$ -	$ (417)	$ (36)	$ 721
For the quarter ended June 30, 2017	$ 6,624	$ -	$ (1,562)	$ (93)	$ 4,969
For the year to date ended June 30, 2018	$ 2,170	$ -	$ (1,334)	$ (115)	$ 721
For the year to date ended June 30, 2017	$ 8,686	$ -	$ (3,451)	$ (266)	$ 4,969

(1) Includes cancellations due to employee departures prior to agreed upon end dates, employee transfers to open positions within the organization and subsequent adjustments to severance and related costs.

The current portion of the accrual for severance and related charges was $0.7 million and $2.1 million, respectively, as of June 30, 2018 and December 31, 2017, which is recorded within current accrued expenses – payroll and related benefits.

In addition, as of June 30, 2018, we have an accrual of approximately $0.3 million related to retention bonuses that have been offered to certain employees. These amounts are recorded ratably over the period the employees are retained.

Remaining Lease Obligations of Continuing Operations

We have recorded lease exit costs associated with the exit of real estate space for certain campuses related to our continuing operations, primarily associated with our teach-out campuses. These costs are recorded within educational services and facilities expense on our unaudited condensed consolidated statements of income and comprehensive income. The current portion of the liability for these charges is reflected within other accrued expenses under current liabilities and the long-term portion of these charges are included in other liabilities under the non-current liabilities section of our condensed consolidated balance sheets. Changes in our future minimum lease obligations for vacated space related to our continuing operations for the quarters and years to date ended June 30, 2018 and 2017 were as follows (dollars in thousands):

	Balance, Beginning of Period	Charges Incurred (1)	Net Cash Payments	Other (2)	Balance, End of Period
For the quarter ended June 30, 2018	$ 15,843	$ 5,165	$ (6,722)	$ 41	$ 14,327
For the quarter ended June 30, 2017	$ 34,410	$ 749	$ (8,403)	$ 353	$ 27,109
For the year to date ended June 30, 2018	$ 20,763	$ 5,597	$ (12,074)	$ 41	$ 14,327
For the year to date ended June 30, 2017	$ 36,814	$ 5,206	$ (14,402)	$ (509)	$ 27,109

(1)Includes charges for newly vacated spaces and subsequent adjustments for accretion, revised estimates and variances between estimated and actual charges, net of any reversals for terminated lease obligations.

(2)Includes existing prepaid rent and deferred rent liability balances for newly vacated spaces that offset the losses incurred in the period recorded.

We do not expect to have any significant new charges for remaining lease obligations related to our campuses in teach-out. We have recorded approximately $73.3 million of charges related to remaining obligations for continuing operations since 2015.

8. CONTINGENCIES

An accrual for estimated legal fees and settlements of $13.8 million and $8.7 million at June 30, 2018 and December 31, 2017, respectively, is presented within current liabilities – other accrued expenses on our condensed consolidated balance sheets.

We record a liability when we believe that it is both probable that a loss will be incurred and the amount of loss can be reasonably estimated. We evaluate, at least quarterly, developments in our legal matters that could affect the amount of liability that was previously accrued, and make adjustments as appropriate. Significant judgment is required to determine both probability and the estimated amount. We may be unable to estimate a possible loss or range of possible loss due to various reasons, including, among others: (1) if the damages sought are indeterminate; (2) if the proceedings are in early stages; (3) if there is uncertainty as to the outcome of pending appeals, motions, or settlements; (4) if there are significant factual issues to be determined or resolved; and (5) if there are novel or unsettled legal theories presented. In such instances, there is considerable uncertainty regarding the ultimate resolution of such matters, including a possible eventual loss, if any.

We are, or were, a party to the following legal proceedings that we consider to be outside the scope of ordinary routine litigation incidental to our business. Due to the inherent uncertainties of litigation, we cannot predict the ultimate outcome of these matters. An unfavorable outcome of any one or more of these matters could have a material adverse impact on our business, reputation, results of operations, cash flows and financial position.

Surrett, et al. v. Western Culinary Institute, Ltd. and Career Education Corporation. On March 5, 2008, a complaint was filed in Portland, Oregon in the Circuit Court of the State of Oregon in and for Multnomah County naming Western Culinary Institute, Ltd. ("WCI") and the Company as defendants. Plaintiffs filed the complaint individually and as a putative class action and alleged two claims for equitable relief: violation of Oregon's Unlawful Trade Practices Act ("UTPA") and unjust enrichment. Plaintiffs alleged WCI made a variety of misrepresentations to them, relating generally to WCI's placement statistics, students' employment prospects upon graduation from WCI, the value and quality of an education at WCI, and the amount of tuition students could expect to pay as compared to salaries they could expect to earn after graduation.

The Company entered into a settlement agreement as of February 2, 2018 pursuant to which the Company will make a payment to settlement class members who completed, signed and returned a claim form within 90 days of mailing of the claim form. The amount of the payment to each settlement class member returning a form will be 44% of the total charged to that person by WCI for tuition, books and fees, less institutional grants and scholarships received by the person, amounts charged by WCI but not paid by the person and refunds applied as a result of withdrawal by the person. The settlement class consists of 1,169 individuals who enrolled at WCI primarily from 2006-2007. The institution is no longer in operation and closed in 2017. Unless they opt out, settlement class members will release the Company from all claims against the Company alleged in the case. The Company makes no admission of liability pursuant to the terms of the settlement. The court preliminarily approved the settlement on February 8, 2018, and the final approval hearing was held on June 8, 2018.

The Company's liability pursuant to the settlement was dependent on how many settlement class members returned valid claim forms by June 8, 2018. The final amount based on valid returned claim forms has been determined to be approximately $11.1 million, of which $4.9 million was recorded during the second quarter of 2018. An initial payment of $3.0 million was made in June 2018 and accordingly, as of June 30, 2018, the Company has a remaining reserve of $8.1 million related to this matter. These amounts are expected to be paid during the third quarter of 2018.

The settlement terms also provide that the court will determine the amount of attorneys' fees and costs payable by the Company to counsel for plaintiffs, although the parties agreed that the attorneys' fees and costs awarded would be in the range of $3.75 to $8.0 million. On June 8, 2018, the Court awarded $4.9 million for attorneys' fees and costs. Accordingly, as of June 30, 2018, the Company has a reserve of $4.9 million related to the attorneys' fees and costs, of which $1.1 million was recorded during the second quarter of 2018. This amount is expected to be paid during the third quarter of 2018.

In addition to the settlement class members, there are approximately 1,100 individuals that have been compelled to arbitration pursuant to a January 21, 2016 appellate court ruling. The number of these individuals who may choose to pursue their claims separately on their own behalf is uncertain. Please see "Oregon Arbitrations" below for additional information.

Oregon Arbitrations. As of July 25, 2018, 325 individual arbitration claims have been filed against WCI. These individual arbitrations allege that WCI made a variety of misrepresentations to the individual filing the arbitration, relating generally to WCI's placement statistics, students' employment prospects upon graduation from WCI, the value and quality of an education at WCI, and the amount of tuition students could expect to pay as compared to salaries they could expect to earn after graduation. The institution is no longer in operation and closed in 2017.

Because of the early stages of these arbitrations and the many questions of fact and law that have already arisen and that may arise in the future, the outcome of these proceedings is uncertain at this point. Based on information available to us at present, we cannot reasonably estimate a range of potential loss, if any, for these actions because of the inherent difficulty in assessing the appropriate measure of damages and the number of individuals who might be entitled to recover damages, if we were to be found liable. Accordingly, we have not recognized any liability associated with these actions.

State AGs. The Attorney General of Connecticut is serving as the point of contact for inquiries received from the attorneys general of the following: Arkansas, Arizona, Connecticut, Idaho, Iowa, Kentucky, Missouri, Nebraska, North Carolina, Oregon, Pennsylvania, Washington (January 24, 2014); Illinois (December 9, 2011); Tennessee (February 7, 2014); Hawaii (May 28, 2014); New Mexico (May 2014); Maryland (March 16, 2015); and the District of Columbia (June 3, 2015) (these 18 attorneys general are collectively referred to as the “Multi-State AGs”). In addition, the Company has received inquiries from the attorneys general of Florida (November 5, 2010), Massachusetts (September 27, 2012), Colorado (August 27, 2013) and Minnesota (September 18, 2014, October 25, 2016). The inquiries are civil investigative demands or subpoenas which relate to the investigation by the attorneys general of whether the Company and its schools have complied with certain state consumer protection laws, and generally focus on the Company's practices relating to the recruitment of students, graduate placement statistics, graduate certification and licensing results and student lending activities, among other matters. Depending on the state, the documents and information sought by the attorneys general in connection with their investigations cover time periods as early as 2006 to the present. The Company continues to cooperate with the states involved with a view towards resolving these inquiries as promptly as possible. In this regard, the Company continues to participate in meetings with representatives of the Multi-State AGs about the Company’s business and to engage in a dialogue towards a resolution of these inquiries.

We cannot predict the scope, duration or outcome of these attorneys general investigations. At the conclusion of any of these matters, the Company or certain of its schools may be subject to claims of failure to comply with state laws or regulations and may be required to pay significant financial penalties and/or curtail or modify their operations. Other state attorneys general may also initiate inquiries into the Company or its schools. Based on information available to us at present and the uncertain outcome of these investigations, we cannot reasonably estimate a range of potential monetary or non-monetary impact these investigations might have on the Company because it is uncertain what remedies, if any, these regulators might ultimately seek in connection with these investigations.

FTC. On August 20, 2015, the Company received a request for information pursuant to a Civil Investigative Demand (“CID”) from the U.S. Federal Trade Commission (“FTC”). The request was made pursuant to a November 2013 resolution by the FTC directing an investigation to determine whether unnamed persons, partnerships, corporations, or others have engaged or are engaging in deceptive or unfair acts or practices in or affecting commerce in the advertising, marketing or sale of secondary or postsecondary educational products or services, or educational accreditation products or services. The information request requires the Company to provide documents and information regarding a broad spectrum of the business and practices of its subsidiaries and institutions for the time period of January 1, 2010 to the present. The Company continues to respond to supplemental requests for information, including a CID dated July 5, 2018 requesting specific information about telephone calls placed to prospective students from 2013 to the present, and is cooperating with the FTC with a view towards resolving this inquiry as promptly as possible. Based on information available to us at present, we cannot predict the outcome of this inquiry or estimate the nature or amount of possible remedies, if any, that the FTC might ultimately seek in connection with this matter.

ED. In December 2011, ED advised the Company that it was conducting an inquiry concerning possible violations of ED misrepresentation regulations related to placement rates reported by certain of the Company’s former institutions to accrediting bodies, students and potential students. This inquiry stemmed from the Company self-reporting to ED its internal investigation into student placement determination practices at the Company’s previous Health Education segment campuses and review of placement determination practices at all of the Company’s other domestic campuses in 2011. In connection with the inquiry, ED moved all of the Company’s institutions from the “advance” method of payment of Title IV Program funds to cash monitoring status (referred to as Heightened Cash Monitoring 1, or HCM1, status). The Company has cooperated with ED in connection with its inquiry; however, almost all of the schools that were the principal subjects of the inquiry are now closed. If ED finds violations of the Higher Education

Act or related regulations, ED may impose monetary sanctions, some period of delay in the Company’s future receipt of Title IV Program funds or other adverse actions.

Other. In addition to the legal proceedings and other matters described above, we receive informal requests from state attorneys general and other government agencies relating to specific complaints they have received from students or former students which seek information about the student, our programs, and other matters relating to our activities in the relevant state. These requests can be broad and time consuming to respond to, and there is a risk that they could expand and/or lead to a formal inquiry or investigation into our practices in a particular state. We are also subject to a variety of other claims, lawsuits, arbitrations and investigations that arise from time to time out of the conduct of our business, including, but not limited to, matters involving prospective students, students or graduates, alleged violations of the Telephone Consumer Protection Act, both individually and on behalf of a putative class, and employment matters. While we currently believe that these additional matters, individually or in aggregate, will not have a material adverse impact on our financial position, cash flows or results of operations, these additional matters are subject to inherent uncertainties, and management’s view of these matters may change in the future. Were an unfavorable final outcome to occur in any one or more of these matters, there exists the possibility of a material adverse impact on our business, reputation, financial position and cash flows.

9. INCOME TAXES

The determination of the annual effective tax is based upon a number of significant estimates and judgments, including the estimated annual pretax income in each tax jurisdiction in which we operate and the ongoing development of tax planning strategies during the year. In addition, our provision for income taxes can be impacted by changes in tax rates or laws, the finalization of tax audits and reviews, as well as other factors that cannot be predicted with certainty. As such, there can be significant volatility in interim tax provisions.

The following is a summary of our provision for income taxes and effective tax rate from continuing operations (dollars in thousands):

	For the Quarter Ended June 30,		For the Year to Date Ended June 30,	
	2018	2017	2018	2017
Pretax income	$11,804	$9,708	$33,186	$19,806
Provision for income taxes	$2,940	$5,045	$6,438	$9,546
Effective rate	24.9 %	52.0 %	19.4 %	48.2 %

As of December 31, 2017, a valuation allowance of $50.5 million was maintained with respect to our foreign tax credits, state net operating losses and Illinois edge credits. After considering both positive and negative evidence related to the realization of these deferred tax assets, we have determined that it is necessary to continue to record the valuation allowance against these credits and state net operating losses as of June 30, 2018.

The effective tax rate for the quarter and year to date ended June 30, 2018 was primarily impacted by tax reserves and the tax effect of stock-based compensation. The effect of these discrete items decreased the effective tax rate for the quarter and year to date by 2.1% and 6.7%, respectively. The effective tax rate for the quarter and year to date ended June 30, 2018 also reflects the reduction in the U.S. corporate tax rate from 35% to 21% resulting from the enactment of the Tax Cuts and Jobs Act that became effective in January 2018. For the quarter and year to date ended June 30, 2017, the effective tax rate was primarily impacted by tax reserves and the tax effect of expenses that are not deductible for tax purposes. The effective tax rate for the quarter and year to date ended June 30, 2017 also includes $1.5 million and $1.2 million, respectively, of additional tax expense associated with stock-based compensation. The effect of this discrete item was to increase the quarterly and year to date effective tax rate by 15.6% and 5.9%, respectively.

We estimate that it is reasonably possible that the gross liability for unrecognized tax benefits for a variety of uncertain tax positions will decrease by up to $1.8 million in the next twelve months as a result of the completion of various tax audits currently in process and the expiration of the statute of limitations in several jurisdictions. The income tax rate for the quarter and year to date ended June 30, 2018 does not take into account the possible reduction of the liability for unrecognized tax benefits. The impact of a reduction to the liability will be treated as a discrete item in the period the reduction occurs. We recognize interest and penalties related to unrecognized tax benefits in tax expense. As of June 30, 2018, we had accrued $1.7 million as an estimate for reasonably possible interest and accrued penalties.

Our tax returns are routinely examined by federal, state and local tax authorities and these audits are at various stages of completion at any given time. The Internal Revenue Service has completed its examination of our U.S. income tax returns through our tax year ended December 31, 2014.

10. SHARE-BASED COMPENSATION

Overview of Share-Based Compensation Plans

The Career Education Corporation 2016 Incentive Compensation Plan (the “2016 Plan”) authorizes awards of stock options, stock appreciation rights, restricted stock, restricted stock units, deferred stock, performance units, annual incentive awards, and substitute awards, which generally may be settled in cash or shares of our common stock. Any shares of our common stock that are subject to awards of stock options or stock appreciation rights payable in shares will be counted as 1.0 share for each share issued for purposes of the aggregate share limit and any shares of our common stock that are subject to any other form of award payable in shares will be counted as 1.35 shares for each share issued for purposes of the aggregate share limit. As of June 30, 2018, there were approximately 3.3 million shares of common stock available for future share-based awards under the 2016 Plan, which is net of (i) 0.8 million shares issuable upon exercise of outstanding options and (ii) 0.9 million shares underlying restricted stock units, which will be settled in shares of our common stock if the vesting conditions are met and thus reduce the common stock available for future share-based awards under the 2016 Plan by the amount vested. These shares have been multiplied by the applicable factor under the 2016 Plan to determine the remaining shares available as of June 30, 2018. Additionally, as of June 30, 2018 under the previous Career Education Corporation 2008 Incentive Compensation Plan, there were approximately 2.0 million shares issuable upon exercise of outstanding options and 0.6 million shares underlying outstanding restricted and deferred stock units, which will be settled in shares of our common stock if the vesting conditions are met. This plan was replaced by the 2016 Plan and effective May 24, 2016 all future awards will be made under the 2016 Plan. The vesting of all types of equity awards (stock options, stock appreciation rights, restricted stock awards, restricted stock units and deferred stock units) is subject to possible acceleration in certain circumstances. Generally, if a plan participant terminates employment for any reason other than by death or disability during the vesting period, the right to unvested equity awards is forfeited.

As of June 30, 2018, we estimate that compensation expense of approximately $8.0 million will be recognized over the next four years for all unvested share-based awards that have been granted to participants, including stock options, restricted stock units and deferred stock units to be settled in shares of stock but excluding restricted stock units to be settled in cash.

Stock Options. The exercise price of stock options granted under each of the plans is equal to the fair market value of our common stock on the date of grant. Employee stock options generally become exercisable 25% per year over a four-year service period beginning on the date of grant and expire ten years from the date of grant. Non-employee directors' stock options expire ten years from the date of grant and generally become 100% exercisable after the first anniversary of the grant date. Grants of stock options are generally only subject to the service conditions discussed previously.

Stock option activity during the year to date ended June 30, 2018 under all of our plans was as follows (options in thousands):

	Options	Weighted Average Exercise Price
Outstanding as of December 31, 2017	2,868	$ 9.86
Granted	337	14.10
Exercised	(137)	7.32
Cancelled	(225)	20.58
Outstanding as of June 30, 2018	2,843	$ 9.64
Exercisable as of June 30, 2018	1,789	$ 10.44

Restricted Stock Units to be Settled in Stock. Restricted stock units to be settled in shares of stock generally vest 25% per year over a four-year service period. Restricted stock units which are "performance-based" are subject to performance conditions that, even if the requisite service period is met, may reduce the number of units of restricted stock that vest at the end of the requisite service period or result in all units being forfeited. The performance-based restricted stock units generally vest three years after the grant date or vest 20% after the first year, 50% after the second year and 30% after the third year.

The following table summarizes information with respect to all outstanding restricted stock units to be settled in shares of stock under our plans during the year to date ended June 30, 2018 (units in thousands):

	Restricted Stock Units to be Settled in Shares of Stock	
	Units	Weighted Average

		Grant-Date Fair Value Per Unit
Outstanding as of December 31, 2017	1,454	$ 5.32
Granted	530	13.81
Vested	(687)	4.95
Forfeited	(95)	6.89
Outstanding as of June 30, 2018	1,202	$ 9.15

Deferred Stock Units to be Settled in Stock. We granted deferred stock units to our non-employee directors. The deferred stock units are to be settled in shares of stock and generally vest one-third per year over a three-year service period beginning on the date of grant. Settlement of the deferred stock units and delivery of the underlying shares of stock to the plan participants does not occur until he or she ceases to provide services to the Company in the capacity of a director, employee or consultant.

The following table summarizes information with respect to all deferred stock units during the year to date ended June 30, 2018 (units in thousands):

	Deferred Stock Units to be Settled in Shares	Weighted Average Grant-Date Fair Value Per Unit
Outstanding as of December 31, 2017 [1]	76	$ 4.44
Granted	-	-
Vested	-	-
Forfeited	-	-
Outstanding as of June 30, 2018 [1]	76	$ 4.44

(1) Includes vested but unreleased awards. These awards are included in total outstanding awards until they are released under the terms of the agreement.

Restricted Stock Units to be Settled in Cash. Restricted stock units to be settled in cash generally vest 25% per year over a four-year service period beginning on the date of grant. Cash-settled restricted stock units are recorded as liabilities as the expense is recognized and the fair value for these awards is determined at each period end date with changes in fair value recorded in our unaudited condensed consolidated statements of income and comprehensive income in the current period. Cash-settled restricted stock units are settled with a cash payment for each unit vested equal to the closing price on the vesting date. Cash-settled restricted stock units are not included in common shares reserved for issuance or available for issuance under the 2016 Plan.

The following table summarizes information with respect to all cash-settled restricted stock units during the year to date ended June 30, 2018 (units in thousands):

	Restricted Stock Units to be Settled in Cash
Outstanding as of December 31, 2017	472
Granted	-
Vested	(195)
Forfeited	(39)
Outstanding as of June 30, 2018	238

Upon vesting, based on the conditions set forth in the award agreements, these units will be settled in cash. We valued these units in accordance with the guidance set forth by FASB ASC Topic 718 – Compensation-Stock Compensation and recognized $1.6 million of expense for the year to date June 30, 2018 for all cash-settled restricted stock units, of which $0.5 million was recorded during the quarter ended June 30, 2018.

Stock-Based Compensation Expense. Total stock-based compensation expense for the quarters and years to date ended June 30, 2018 and 2017 for all types of awards was as follows (dollars in thousands):

	For the Quarter Ended June 30,		For the Year to Date Ended June 30,	
Award Type	2018	2017	2018	2017
Stock options	$ 483			