

CAREER EDUCATION CORP
Form 10-Q
November 05, 2008
Table of Contents

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 SEPTEMBER 30, 2008

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)

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Delaware
(State or other jurisdiction of
incorporation or organization)

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

2895 Greenspoint Parkway, Suite 600,

Hoffman Estates, Illinois
(Address of principal executive offices)

60169
(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 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 Smaller reporting company
(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company, as defined in Rule 12b-2 of the Securities Exchange Act of 1934. Yes No

Number of shares of registrant's common stock, par value \$0.01, outstanding October 31, 2008: 89,714,982

Table of Contents

CAREER EDUCATION CORPORATION

INDEX

	Page
<u>PART I FINANCIAL INFORMATION</u>	
Item 1. <u>Financial Statements</u>	3
<u>Unaudited Consolidated Balance Sheets</u>	3
<u>Unaudited Consolidated Statements of Operations</u>	4
<u>Unaudited Consolidated Statements of Cash Flows</u>	5
<u>Notes to Unaudited Consolidated Financial Statements</u>	6
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	28
Item 3. <u>Quantitative and Qualitative Disclosures about Market Risk</u>	44
Item 4. <u>Controls and Procedures</u>	45
<u>PART II OTHER INFORMATION</u>	
Item 1. <u>Legal Proceedings</u>	46
Item 1A. <u>Risk Factors</u>	46
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	47
Item 6. <u>Exhibits</u>	47
<u>SIGNATURES</u>	48

Table of Contents**PART I FINANCIAL INFORMATION****Item 1. Financial Statements****CAREER EDUCATION CORPORATION AND SUBSIDIARIES****UNAUDITED CONSOLIDATED BALANCE SHEETS****(In thousands, except share and per share amounts)**

	September 30, 2008	December 31, 2007
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 224,908	\$ 223,334
Investments	284,046	166,618
Total cash and cash equivalents and investments	508,954	389,952
Receivables:		
Students, net of allowance for doubtful accounts of \$35,393 and \$35,507 as of September 30, 2008 and December 31, 2007, respectively	54,981	59,584
Other, net	7,969	9,052
Prepaid expenses	44,691	50,025
Inventories	11,850	15,400
Deferred income tax assets	19,403	19,418
Other current assets	10,120	16,456
Assets of discontinued operations	628	23,554
Total current assets	658,596	583,441
NON-CURRENT ASSETS:		
Property and equipment, net	302,955	337,073
Goodwill	377,288	379,507
Intangible assets, net	40,851	44,395
Other assets, net	20,074	22,050
TOTAL ASSETS	\$ 1,399,764	\$ 1,366,466
LIABILITIES AND STOCKHOLDERS EQUITY		
CURRENT LIABILITIES:		
Current maturities of long-term debt and capital lease obligations	\$ 9,683	\$ 11,843
Accounts payable	39,726	27,826
Accrued expenses:		
Payroll and related benefits	56,435	34,305
Income taxes	5,822	19,556
Other	76,784	102,058
Deferred tuition revenue	175,581	159,482
Liabilities of discontinued operations	2,590	8,282
Total current liabilities	366,621	363,352
LONG-TERM LIABILITIES:		
Long-term debt and capital lease obligations, net of current maturities	1,984	2,179
Deferred rent obligations	99,051	98,115
Deferred income tax liabilities	412	624
Other	13,085	4,473

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Total long-term liabilities	114,532	105,391
SHARE-BASED AWARDS SUBJECT TO REDEMPTION	6,191	11,615
STOCKHOLDERS EQUITY:		
Preferred stock, \$0.01 par value; 1,000,000 shares authorized; no shares issued or outstanding		
Common stock, \$0.01 par value; 300,000,000 shares authorized; 93,257,882 and 92,956,232 shares issued, 89,699,582 and 90,412,033 shares outstanding as of September 30, 2008 and December 31, 2007, respectively	933	930
Additional paid-in capital	220,833	207,294
Accumulated other comprehensive income	8,777	16,304
Retained earnings	770,955	736,603
Cost of 3,558,300 and 2,544,199 shares in treasury as of September 30, 2008 and December 31, 2007, respectively	(89,078)	(75,023)
Total stockholders equity	912,420	886,108
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	\$ 1,399,764	\$ 1,366,466

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

Table of Contents**CAREER EDUCATION CORPORATION AND SUBSIDIARIES****UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS**

(In thousands, except per share amounts)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2008	2007	2008	2007
REVENUE:				
Tuition and registration fees	\$ 385,849	\$ 401,939	\$ 1,224,581	\$ 1,245,274
Other	19,784	25,266	54,371	62,960
Total revenue	405,633	427,205	1,278,952	1,308,234
OPERATING EXPENSES:				
Educational services and facilities	170,055	162,636	502,617	479,885
General and administrative	218,454	227,186	680,007	708,147
Depreciation and amortization	19,034	18,500	58,630	56,043
Goodwill and asset impairment	6,843		9,070	
Total operating expenses	414,386	408,322	1,250,324	1,244,075
Operating (loss) income	(8,753)	18,883	28,628	64,159
OTHER INCOME (EXPENSE):				
Interest income	2,875	4,152	9,327	12,787
Interest expense	(211)	(342)	(703)	(877)
Share of affiliate earnings		209	4,665	2,870
Miscellaneous (expense) income	(220)	65	(496)	784
Total other income	2,444	4,084	12,793	15,564
Pretax (loss) income	(6,309)	22,967	41,421	79,723
(Benefit) provision for income taxes	(6,263)	6,755	9,655	27,329
(LOSS) INCOME FROM CONTINUING OPERATIONS	(46)	16,212	31,766	52,394
LOSS FROM DISCONTINUED OPERATIONS, net of tax	(101)	(651)	(2,838)	(1,670)
NET (LOSS) INCOME	\$ (147)	\$ 15,561	\$ 28,928	\$ 50,724
NET (LOSS) INCOME PER SHARE - BASIC:				
(Loss) income from continuing operations	\$ (0.00)	\$ 0.18	\$ 0.35	\$ 0.56
Loss from discontinued operations	(0.00)	(0.01)	(0.03)	(0.02)
Net (loss) income	\$ (0.00)	\$ 0.17	\$ 0.32	\$ 0.54
NET (LOSS) INCOME PER SHARE - DILUTED:				
(Loss) income from continuing operations	\$ (0.00)	\$ 0.18	\$ 0.35	\$ 0.55
Loss from discontinued operations	(0.00)	(0.01)	(0.03)	(0.02)
Net (loss) income	\$ (0.00)	\$ 0.17	\$ 0.32	\$ 0.53

WEIGHTED AVERAGE SHARES OUTSTANDING:

Basic	89,675	92,806	89,833	94,329
Diluted	89,675	93,455	90,144	95,055

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

Table of Contents

CAREER EDUCATION CORPORATION AND SUBSIDIARIES
UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

	For the Nine Months Ended September 30,	
	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 28,928	\$ 50,724
Adjustments to reconcile net income to net cash provided by operating activities:		
Goodwill and asset impairment	13,600	
Depreciation and amortization expense	60,070	57,744
Bad debt expense	33,350	32,055
Compensation expense related to share-based awards	10,017	11,700
Gain on sale of business	(1,555)	
Loss (gain) on disposition of property and equipment	573	(220)
Share of affiliate earnings, net of cash received	939	(927)
Changes in operating assets and liabilities	13,022	42,164
Net cash provided by operating activities	&n	