

CAREER EDUCATION CORP
Form 10-Q
November 05, 2007

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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 15d OF THE
SECURITIES EXCHANGE ACT OF 1934**

FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2007

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.)

**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

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Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer

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 October 31, 2007: 91,072,533

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements

CAREER EDUCATION CORPORATION AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except share and per share amounts)

	September 30, 2007	December 31, 2006
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 199,631	\$ 187,853
Investments	243,136	259,766
	<hr/>	<hr/>
Total cash and cash equivalents and investments	442,767	447,619
Receivables:		
Students, net of allowance for doubtful accounts of \$30,495 and \$28,709 as of September 30, 2007, and December 31, 2006, respectively	58,414	48,564
Other, net	7,028	8,094
Prepaid expenses	35,755	29,621
Inventories	16,409	16,853
Deferred income tax assets	7,159	11,357
Assets held for sale	59,887	63,156
Other current assets	12,995	32,064
	<hr/>	<hr/>
Total current assets	640,414	657,328
	<hr/>	<hr/>
PROPERTY AND EQUIPMENT, net	339,275	352,270
GOODWILL	382,914	349,760
INTANGIBLE ASSETS, net	45,792	33,984
OTHER ASSETS	21,799	32,321
	<hr/>	<hr/>
TOTAL ASSETS	\$ 1,430,194	\$ 1,425,663
	<hr/>	<hr/>
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Current maturities of long-term debt	\$ 11,596	\$ 12,098
Accounts payable	33,606	30,095
Accrued expenses:		
Payroll and related benefits	28,576	27,012
Income taxes	5,344	
Other	85,887	78,885
Deferred tuition revenue	179,303	132,186
Liabilities held for sale	30,806	31,879
	<hr/>	<hr/>
Total current liabilities	375,118	312,155
	<hr/>	<hr/>
LONG-TERM LIABILITIES:		
Long-term debt, net of current maturities	3,484	2,763
Deferred rent obligations	92,143	90,360
Deferred income tax liabilities	16,607	16,527
Other	7,093	7,980
	<hr/>	<hr/>
Total long-term liabilities	119,327	117,630
	<hr/>	<hr/>

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	<u>September 30,</u> <u>2007</u>	<u>December 31,</u> <u>2006</u>
SHARE-BASED AWARDS SUBJECT TO REDEMPTION	13,949	13,477
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; 107,724,610 and 106,923,310 shares issued, 92,084,073 and 96,148,825 shares outstanding as of September 30, 2007, and December 31, 2006, respectively	1,077	1,069
Additional paid-in capital	696,070	666,780
Accumulated other comprehensive income	14,773	5,683
Retained earnings	725,440	675,188
Cost of 15,640,537 and 10,774,485 shares in treasury as of September 30, 2007, and December 31, 2006, respectively	(515,560)	(366,319)
	<u>921,800</u>	<u>982,401</u>
Total stockholders' equity	921,800	982,401
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 1,430,194	\$ 1,425,663

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

CAREER EDUCATION CORPORATION AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(In thousands, except share and per share amounts)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2007	2006	2007	2006
REVENUE:				
Tuition and registration fees	\$ 380,523	\$ 405,866	\$ 1,178,054	\$ 1,310,988
Other	23,882	22,698	59,671	60,149
Total revenue	404,405	428,564	1,237,725	1,371,137
OPERATING EXPENSES:				
Educational services and facilities	149,514	139,811	437,777	418,273
General and administrative	211,642	230,180	660,182	695,634
Depreciation and amortization	19,301	19,382	57,744	57,142
Goodwill impairment charge		785		85,760
Total operating expenses	380,457	390,158	1,155,703	1,256,809
Income from operations	23,948	38,406	82,022	114,328
OTHER INCOME (EXPENSE):				
Interest income	4,269	4,475	13,105	13,448
Interest expense	(336)	(322)	(899)	(1,007)
Share of affiliate earnings	209	510	2,870	2,109
Miscellaneous income	56	120	772	25
Total other income	4,198	4,783	15,848	14,575
Income before provision for income taxes	28,146	43,189	97,870	128,903
PROVISION FOR INCOME TAXES	8,316	16,153	33,765	77,548
Income from continuing operations	19,830	27,036	64,105	51,355
LOSS FROM DISCONTINUED OPERATIONS, net of tax	(4,269)	(6,321)	(13,381)	(25,450)
NET INCOME	\$ 15,561	\$ 20,715	\$ 50,724	\$ 25,905
NET INCOME PER SHARE BASIC:				
Income from continuing operations	\$ 0.21	\$ 0.29	\$ 0.68	\$ 0.53
Loss from discontinued operations	(0.04)	(0.07)	(0.14)	(0.26)
Net income	\$ 0.17	\$ 0.22	\$ 0.54	\$ 0.27

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	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
NET INCOME PER SHARE DILUTED:				
Income from continuing operations	\$ 0.21	\$ 0.28	\$ 0.67	\$ 0.52
Loss from discontinued operations	(0.04)	(0.06)	(0.14)	(0.26)
Net income	\$ 0.17	\$ 0.22	\$ 0.53	\$ 0.26
WEIGHTED AVERAGE SHARES OUTSTANDING:				
Basic	92,806	94,721	94,329	96,605
Diluted	93,455	96,195	95,055	98,556

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

CAREER EDUCATION CORPORATION AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

(In thousands)

	Common Stock		Treasury Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Income	Retained Earnings	Total
	Issued Shares	\$0.01 Par Value	Purchased Shares	Cost				
BALANCE , December 31, 2006	106,923	\$ 1,069	(10,774)	\$ (366,319)	\$ 666,780	\$ 5,683	\$ 675,188	\$ 982,401
Net income							50,724	50,724
Foreign currency translation						9,020		9,020
Unrealized gain on investments						70		70
Total comprehensive income								59,814
Treasury stock purchased			(4,867)	(149,241)				(149,241)
Share-based compensation expense					11,700			11,700
Common stock issued under:								
Stock option plans	700	7			12,283			12,290
Employee stock purchase plan	102	1			2,439			2,440
Tax benefit of options exercised					2,868			2,868
Adjustment to share-based awards subject to redemption							(472)	(472)
BALANCE , September 30, 2007	107,725	\$ 1,077	(15,641)	\$ (515,560)	\$ 696,070	\$ 14,773	\$ 725,440	\$ 921,800

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

CAREER EDUCATION CORPORATION AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2007	2006	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES:				
Net income	\$ 15,561	\$ 20,715	\$ 50,724	\$ 25,905
Adjustments to reconcile net income to net cash provided by operating activities:				
Goodwill impairment charge		785		96,149
Depreciation and amortization expense	19,301	21,886	57,744	64,837
Bad debt expense	11,093	18,196	32,055	50,459
Compensation expense related to share-based awards	3,475	6,163	11,700	14,649
Gain (loss) on disposition of property and equipment	(4)	5	(220)	260
Share of affiliate earnings, net of dividends received	(1,177)	3,633	(927)	2,034
Changes in operating assets and liabilities, net of acquisitions	56,732	11,843	42,164	(39,606)
Net cash provided by operating activities	104,981	83,226	193,240	214,687
CASH FLOWS FROM INVESTING ACTIVITIES:				
Business acquisition, net of acquired cash			(30,324)	
Acquisition transaction costs	(121)		(1,553)	
Purchases of property and equipment	(12,755)	(16,870)	(44,085)	(60,021)
Purchases of available-for-sale investments	(215,496)	(249,160)	(504,180)	(801,610)
Sales of available-for-sale investments	236,457	208,241	522,789	745,526
Other	(5)	(254)	(196)	(364)
Net cash provided by (used in) investing activities	8,080	(58,043)	(57,549)	(116,469)
CASH FLOWS FROM FINANCING ACTIVITIES:				
Purchase of treasury stock	(24,320)		(149,241)	(124,845)
Issuance of common stock	3,740	1,236	14,730	8,647
Tax benefit associated with stock option exercises	302	51	2,868	2,101
Payments of capital lease obligations and other long-term debt	(9)	(3,556)	(1,385)	(3,740)
Net cash used in financing activities	(20,287)	(2,269)	(133,028)	(117,837)
EFFECT OF FOREIGN CURRENCY EXCHANGE RATE				
CHANGES ON CASH AND CASH EQUIVALENTS:	6,081			