CAREER EDUCATION CORP
Form 10-Q
November 04, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark one)

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

OR

o 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 x No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No o

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	o	Accelerated filer	x
Non-accelerated filer	o (Do not check if a smaller reporting company)	Smaller reporting company	o

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

Number of shares of registrant's common stock, par value $0.01, outstanding as of October 28, 2015: 67,996,409

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	September 30, 2015 (unaudited)	December 31, 2014
CURRENT ASSETS:		
Cash and cash equivalents, unrestricted	$ 68,940	$ 93,832
Restricted cash	13,688	22,938
Short-term investments	116,790	122,858
Total cash and cash equivalents, restricted cash and short-term investments	199,418	239,628
Student receivables, net of allowance for doubtful accounts of $13,283 and $12,398		
as of September 30, 2015 and December 31, 2014, respectively	27,696	24,564
Receivables, other, net	4,415	18,925
Prepaid expenses	13,360	14,679
Inventories	2,353	3,305
Other current assets	1,565	2,384
Assets held for sale	29,239	76,846
Assets of discontinued operations	347	473
Total current assets	278,393	380,804
NON-CURRENT ASSETS:		
Property and equipment, net	54,680	73,083
Goodwill	87,356	87,356
Intangible assets, net	7,900	9,819
Student receivables, net of allowance for doubtful accounts of $1,628		
and $2,119 as of September 30, 2015 and December 31, 2014, respectively	2,874	2,926
Other assets	16,901	18,571
Assets of discontinued operations	780	975
TOTAL ASSETS	$ 448,884	$ 573,534
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Short-term borrowings	$ —	$ 10,000
Accounts payable	28,293	21,968
Accrued expenses:		
Payroll and related benefits	31,208	29,545
Advertising and production costs	15,026	13,162
Income taxes	1,717	1,633
Other	22,295	21,440
Deferred tuition revenue	31,004	37,572
Liabilities held for sale	45,187	50,357
Liabilities of discontinued operations	12,355	15,506
Total current liabilities	187,085	201,183

NON-CURRENT LIABILITIES:		
Deferred rent obligations	34,999	48,381
Other liabilities	19,760	19,178
Liabilities of discontinued operations	12,597	22,859
Total non-current liabilities	67,356	90,418
STOCKHOLDERS' EQUITY:		
Preferred stock, $0.01 par value; 1,000,000 shares authorized; none issued or outstanding	—	—
Common stock, $0.01 par value; 300,000,000 shares authorized; 82,874,634 and 82,336,689 shares issued, 67,981,417 and 67,521,038 shares outstanding as of September 30, 2015 and December 31, 2014, respectively	829	823
Additional paid-in capital	610,063	606,531
Accumulated other comprehensive loss	(620)	(853)
Retained deficit	(200,242)	(109,403)
Cost of 14,893,217 and 14,815,651 shares in treasury as of September 30, 2015 and December 31, 2014, respectively	(215,587)	(215,165)
Total stockholders' equity	194,443	281,933
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 448,884	$ 573,534

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 LOSS AND COMPREHENSIVE LOSS

(In thousands, except per share amounts)

	For the Quarter Ended September 30,		For the Year to Date Ended September 30,	
	2015	2014	2015	2014
REVENUE:				
Tuition and registration fees	$161,358	$181,761	$516,722	$563,806
Other	716	1,064	2,434	3,345
Total revenue	162,074	182,825	519,156	567,151
OPERATING EXPENSES:				
Educational services and facilities	54,201	60,790	163,101	181,429
General and administrative	112,705	132,090	373,218	409,587
Depreciation and amortization	5,962	8,739	19,860	28,052
Asset impairment	—	12,938	7,704	13,015
Total operating expenses	172,868	214,557	563,883	632,083
Operating loss	(10,794)	(31,732)	(44,727)	(64,932)
OTHER (EXPENSE) INCOME:				
Interest income	163	223	545	614
Interest expense	(170)	(103)	(502)	(292)
Loss on sale of business	(715)	—	(1,632)	—
Miscellaneous income (expense)	31	(39)	(377)	(147)
Total other (expense) income	(691)	81	(1,966)	175
PRETAX LOSS	(11,485)	(31,651)	(46,693)	(64,757)
Provision for (benefit from) income taxes	35	1,116	(923)	3,190
LOSS FROM CONTINUING OPERATIONS	(11,520)	(32,767)	(45,770)	(67,947)
LOSS FROM DISCONTINUED OPERATIONS, net of tax	(33,715)	(15,201)	(45,069)	(84,728)
NET LOSS	(45,235)	(47,968)	(90,839)	(152,675)
OTHER COMPREHENSIVE LOSS, net of tax:				
Unrealized gains (losses) on investments	81	(108)	233	(243)
COMPREHENSIVE LOSS	$(45,154)	$(48,076)	$(90,606)	$(152,918)
NET LOSS PER SHARE - BASIC and DILUTED:				
Loss from continuing operations	$(0.17)	$(0.49)	$(0.68)	$(1.01)
Loss from discontinued operations	(0.50)	(0.22)	(0.66)	(1.26)
Net loss per share	$(0.67)	$(0.71)	$(1.34)	$(2.27)
WEIGHTED AVERAGE SHARES OUTSTANDING:				
Basic and Diluted	67,961	67,209	67,798	67,121

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 September 30, 2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$(90,839)	$(152,675)
Adjustments to reconcile net loss to net cash used in operating activities:		
Asset impairment	50,837	22,006
Depreciation and amortization expense	19,861	42,966
Bad debt expense	15,526	19,107
Compensation expense related to share-based awards	2,453	3,311
Loss on sale of businesses, net	1,632	311
(Gain) loss on disposition of property and equipment	(10)	32
Changes in operating assets and liabilities	(20,463)	(36,203)
Net cash used in operating activities	(21,003)	(101,145)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of available-for-sale investments	(64,056)	(131,487)
Sales of available-for-sale investments	69,436	51,540
Purchases of property and equipment	(7,926)	(10,558)
Proceeds on the sale of assets	2,272	—
Payments of cash upon sale of businesses	(4,125)	(387)
Net cash used in investing activities	(4,399)	(90,892)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Issuance of common stock	1,082	575
Payment on borrowings	(10,000)	—
Change in restricted cash	9,250	(674)
Net cash provided by (used in) financing activities	332	(99)
EFFECT OF FOREIGN CURRENCY EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS:	178	121
NET DECREASE IN CASH AND CASH EQUIVALENTS	(24,892)	(192,015)
DISCONTINUED OPERATIONS CASH ACTIVITY INCLUDED ABOVE:		
Add: Cash balance of discontinued operations, beginning of the period	—	475
Less: Cash balance of discontinued operations, end of the period	—	—
CASH AND CASH EQUIVALENTS, beginning of the period	93,832	318,468
CASH AND CASH EQUIVALENTS, end of the period	$68,940	$126,928

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, on-ground and hybrid learning programs. Our two universities – American InterContinental University ("AIU") and Colorado Technical University ("CTU") – provide degree programs through the master's or doctoral level as well as associate and bachelor's levels. Both universities predominantly serve students online with career-focused degree programs that 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™ adaptive learning platform that allow students to more efficiently pursue earning a degree by receiving course credit for knowledge they can already demonstrate. 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.

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

As used in this Quarterly Report on Form 10-Q, the terms "we," "us," "our," "the Company" and "CEC" refer to Career Education Corporation and our wholly-owned subsidiaries. The terms "college," "institution" and "university" refer to an individual, branded, proprietary educational institution owned by us and includes its campus locations. The term "campus" refers to an individual main or branch campus operated by one of our colleges, institutions or universities.

2. BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States ("GAAP") for interim financial information and the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, the financial statements do not include all of the information and notes required by GAAP for complete financial statements. In the opinion of management, all adjustments, including normal recurring accruals, considered necessary for a fair presentation have been included. Operating results for the quarter ended September 30, 2015 are not necessarily indicative of the results that may be expected for the year ending December 31, 2015.

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

We organize our business across three reporting segments: CTU, AIU (comprises University Group); and Transitional Group. Campuses included in our Transitional Group segment are those (i) currently being taught out and therefore no longer enrolling new students, (ii) campuses that completed their teach-out subsequent to January 1, 2015 or (iii) that have either been sold or are held for sale and which decisions were made subsequent to January 1, 2015. Those campuses in teach-out employ a gradual teach-out process, enabling them to continue to operate while current students complete their course of study. All prior periods have been recast to reflect our segments on a comparable basis and our results of operations for these campuses are recorded within continuing operations as part of the Transitional Group segment for all periods presented.

Effective January 1, 2015, ASC Topic 360 – Property, Plant and Equipment, limits discontinued operations reporting and thus as campuses cease teach-out operations on or after January 1, 2015, the results of operations for these campuses will remain within the results of continuing operations. Prior to January 1, 2015, campuses met the criteria for discontinued operations upon completion of the teach-out. During the third quarter of 2015, the Company completed the teach-out of one Transitional Group campus, Sanford-Brown Tyson’s Corner, which continues to be reported as part of the Transitional Group as of September 30, 2015.

On September 1, 2015, the Company completed the sale of its Missouri College campus. The historical results of operations for the Missouri College campus continue to be reported within continuing operations as part of the Transitional Group and the loss on sale for this campus is reported within other (expense) income on our consolidated statements of loss and comprehensive loss.

3. RECENT ACCOUNTING PRONOUNCEMENTS

In July 2015, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2015-11, Inventory (Topic 330): Simplifying the Measurement of Inventory. The amendments in this ASU require an entity to measure in-scope inventory at the lower of cost and net realizable value, further clarifying consideration for net realizable value as estimated selling prices in the ordinary course of business less reasonably predictable costs of completion, disposal and transportation. This ASU more

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closely aligns the measurement of inventory in GAAP with the measurement of inventory in International Financial Reporting Standards ("IFRS"). For public business entities, ASU 2015-11 is effective for annual periods and interim periods beginning after December 15, 2016. The amendment in this ASU is prospectively applied with earlier adoption permitted. We are currently evaluating this guidance and do not believe the adoption will significantly impact the presentation of our financial condition, results of operations and disclosures.

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

In April 2015, the FASB issued ASU No. 2015-03, Interest – Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs. This ASU is intended to simplify the presentation of debt issuance costs. The amendments in this ASU require that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. In August 2015, the FASB issued ASU 2015-15 clarifying that there is no objection to an entity deferring and presenting debt issuance costs related to line-of-credit arrangements as an asset and subsequently amortizing the deferred debt issuance costs ratably over the term of the line-of-credit arrangements, regardless of whether there are any outstanding borrowings on the line-of-credit arrangements. The amendments in ASU 2015-03 are effective for annual periods and interim periods within those annual periods beginning after December 15, 2015; early adoption is permitted. We are currently evaluating this guidance and do not believe the adoption will significantly impact the presentation of our financial condition, results of operations and disclosures.

In January 2015, the FASB issued ASU No. 2015-01, Income Statement – Extraordinary and Unusual Items (Subtopic 225-20): Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items. This ASU eliminates from GAAP the concept of extraordinary items. Subtopic 225-20 previously required that an entity separately classify, present, and disclose extraordinary events and transactions from the results of ordinary operations and show the items separately. The amendments in this ASU are effective for annual periods and interim periods within those annual periods, beginning after December 15, 2015; early adoption is permitted. We are currently evaluating this guidance and do not believe the adoption will significantly impact the presentation of our financial condition, results of operations and disclosures.

In August 2014, the FASB issued ASU No. 2014-15, Presentation of Financial Statements – Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern. This ASU provides guidance to an organization's management, intended to define management's responsibility to evaluate whether there is a substantial doubt about an organization's ability to continue as a going concern and to provide guidance regarding related footnote disclosure. In connection with preparing financial statements for each annual and interim reporting period, an entity's management should evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the entity's ability to continue as a going concern within one year after the date that the financial statements are issued. Management's evaluation should be based on relevant conditions and events that are known and reasonably knowable at the date that the financial statements are issued. For all entities, ASU 2014-15 is effective for annual periods and interim periods within those annual periods beginning after December 15, 2016; early adoption is permitted. We are currently evaluating the impact that the adoption of ASU 2014-15 will have on our financial condition, results of operations and disclosures.

In June 2014, the FASB issued ASU No. 2014-12, Compensation – Stock Compensation (Topic 718): Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period. This ASU standardizes the reporting for these awards by requiring that entities treat these performance targets as a performance condition. As such, the performance target should not be reflected in estimating the grant-date fair value of the award. Compensation cost should be recognized in the period in which it becomes probable that the performance target will be achieved and should represent the compensation cost attributable to the period(s) for which the requisite service has already been rendered. For all entities, ASU 2014-12 is effective for annual periods and interim periods within those annual periods beginning after December 15, 2015; early adoption is permitted. We are currently evaluating the impact that the adoption of ASU 2014-11 will have on 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). ASU 2014-09 is principles based guidance that can be applied to all contracts with customers, enhancing comparability of revenue recognition practices across entities, industries, jurisdictions and capital markets. The core principle of the guidance is that entities should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. The guidance details the steps entities should apply to achieve the core principle. In August 2015, the FASB issued ASU 2015-14 approving a one-year deferral of the effective date for its new revenue standard for public and nonpublic entities reporting under US GAAP. The standard will be effective for public business entities for annual reporting periods beginning after December 15, 2017 and interim periods therein. Nonpublic entities would be required to adopt the new standard for annual reporting periods beginning after December 15, 2018, and interim periods within annual reporting periods beginning after December 15, 2019. Additionally, the FASB approved the option to early adopt prior to the original effective date (fiscal years beginning after December 15, 2016). We are currently evaluating the impact that the adoption of ASU 2014-09 will have on our financial condition, results of operations and disclosures.

In April 2014, the FASB issued ASU No. 2014-08, Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity. This ASU limits discontinued operations reporting to disposals of components of an entity that represent strategic shifts upon disposal that have (or will have) a major effect on an entity’s operations and financial results. In addition, the amendments in this ASU require expanded disclosures for discontinued operations as well as for disposals that do not qualify as discontinued operations. This ASU is effective for us as of January 1, 2015. We have evaluated the impact that the adoption of ASU 2014-08 will have on our financial condition, results of operation and disclosures and believe the impact to be material. Previously, campuses within our Transitional Group would be reclassified as discontinued operations upon the teach-out date. Under the new guidance, campuses that complete their teach-out do not meet the definition of discontinued operations, with the exception of those that meet the definition of a “strategic shift” upon disposal. Therefore, revenues and any respective operating losses associated with these campuses that do not meet the definition of a “strategic shift” upon disposal remain within continuing operations for all periods presented. Additionally, we have provided increased disclosures surrounding discontinued operations as well as increased disclosures surrounding our campuses that have ceased operations but do not meet the requirements to be classified as discontinued operations.

4. DISPOSITIONS

On September 1, 2015, we completed the sale of our Missouri College campus, located in Brentwood, Missouri, to Weston Education Group, a postsecondary education school providing a variety of certificate and degree programs to students for thirty-four years. This sale reflects our strategy to focus our resources and attention on our universities – Colorado Technical University and American InterContinental University. The sale does not meet the definition of a strategic shift under ASC Topic 360 and is therefore reported within continuing operations in accordance with FASB ASC Topic 205 – Presentation of Financial Statements.

We received no consideration for the sale of Missouri College and recorded a loss on sale of $0.9 million for the quarter ended September 30, 2015. The terms of the agreement provide that we make certain working capital payments to the buyer; accordingly, these amounts were included in the loss calculation. The loss on sale is included within other (expense) income on our unaudited condensed consolidated statements of loss and comprehensive loss.

5. DISCONTINUED OPERATIONS

As of September 30, 2015, the results of operations for campuses that have ceased operations prior to 2015 and all our Le Cordon Bleu (“LCB”) campuses that are held for sale are presented within discontinued operations. Prior to January 1, 2015, our Transitional Group campuses met the criteria for discontinued operations upon completion of their teach-out. Commencing January 1, 2015, in accordance with new guidance under ASC Topic 360, only campuses that meet the criteria of a strategic shift upon disposal will be classified within discontinued operations, among other criteria. During the third quarter of 2015, we did not have any campuses that met the criteria to be considered as a discontinued operation under the new guidance.

Results of Discontinued Operations

The summary of unaudited results of operations for our discontinued operations for the quarters and years to date ended September 30, 2015 and 2014 were as follows (dollars in thousands):

	For the Quarter Ended September 30, (1)		For the Year to Date Ended September 30, (1)	
	2015	2014	2015	2014
Revenue	$41,413	$44,656	$128,176	$134,076
Operating expenses:				
Educational services and facilities	21,124	23,197	60,528	85,363
General and administrative	20,583	30,771	69,657	109,762
Depreciation and amortization	—	4,403	1	14,914
Asset impairment (2)	33,446	1,547	43,133	8,991
Total operating expenses	75,153	59,918	173,319	219,030
Loss before income tax	$(33,715)	$(15,201)	$(45,069)	$(84,728)
Income tax expense (3)	—	—	—	—
Loss from discontinued operations, net of tax	$(33,715)	$(15,201)	$(45,069)	$(84,728)
Net loss per diluted share	$(0.50)	$(0.22)	$(0.66)	$(1.26)
Capital expenditures	$138	$1,110	$457	$1,714

(1) Includes the results of operations for our LCB campuses that are held for sale, which met the criteria to be considered discontinued operations under ASC Topic 360, in addition to our Transitional Group campuses that completed their teach-out prior to 2015.

(2) Asset impairment charges for the current year quarter and year to date relate to impairment recorded for our LCB campuses which are held for sale as a result of our fair value analysis.

(3) Due to the valuation allowance against our net deferred taxes, there is no income tax benefit reported for the quarters and years to date ended September 30, 2015 and 2014.

Assets and Liabilities of Discontinued Operations

Assets and liabilities of discontinued operations on our condensed consolidated balance sheets for campuses that have ceased operations or were sold as of September 30, 2015 and December 31, 2014 include the following (dollars in thousands):

	September 30, 2015	December 31, 2014
Assets:		
Current assets:		