CAREER EDUCATION CORP
Form 10-Q
November 06, 2014
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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, 2014

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	**36-3932190**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
231 N. Martingale Road Schaumburg, Illinois	**60173**
(Address of principal executive offices)	**(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 ¨

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 ¨

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

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

Number of shares of registrant s common stock, par value $0.01, outstanding as of October 31, 2014: 67,278,590

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CAREER EDUCATION CORPORATION

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CAREER EDUCATION CORPORATION AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except share and per share amounts)

	September 30, 2014	December 31, 2013
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents, unrestricted	$ 126,926	$ 318,468
Restricted cash	13,238	12,564
Short-term investments	110,734	31,592
Total cash and cash equivalents and short-term investments	250,898	362,624
Student receivables, net of allowance for doubtful accounts of $18,816 and $20,724 as of September 30, 2014 and December 31, 2013, respectively	32,463	33,530
Receivables, other, net	18,516	27,336
Prepaid expenses	20,297	19,649
Inventories	5,192	6,586
Deferred income tax assets, net	3,606	3,606
Other current assets	4,719	3,445
Assets of discontinued operations	604	3,241
Total current assets	336,295	460,017
NON-CURRENT ASSETS:		
Property and equipment, net	138,248	179,835
Goodwill	87,356	87,356
Intangible assets, net	29,062	40,117
Student receivables, net of allowance for doubtful accounts of $4,914 and $6,852 as of September 30, 2014 and December 31, 2013, respectively	4,235	5,179
Deferred income tax assets, net	10,644	10,644
Other assets, net	17,167	17,834
Assets of discontinued operations	1,029	4,063
TOTAL ASSETS	$ 624,036	$ 805,045
LIABILITIES AND STOCKHOLDERS EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 29,660	$ 24,477
Accrued expenses:		
Payroll and related benefits	34,035	34,160
Advertising and production costs	25,472	17,585

Income taxes		1,506		14,994
Other		26,722		40,609
Deferred tuition revenue		60,241		59,967
Liabilities of discontinued operations		16,014		15,640
Total current liabilities		193,650		207,432
NON-CURRENT LIABILITIES:				
Deferred rent obligations		70,578		77,280
Other liabilities		25,695		27,553
Liabilities of discontinued operations		28,429		37,396
Total non-current liabilities		124,702		142,229
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; 82,094,031 and 81,889,907 shares issued, 67,278,710 and 67,170,522 shares outstanding as of September 30, 2014 and December 31, 2013, respectively		821		819
Additional paid-in capital		604,789		600,904
Accumulated other comprehensive loss		(746)		(503)
Retained (deficit) earnings		(84,017)		68,658
Cost of 14,815,321 and 14,719,385 shares in treasury as of September 30, 2014 and December 31, 2013, respectively		(215,163)		(214,494)
Total stockholders equity		305,684		455,384
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	$	624,036	$	805,045

The accompanying notes are an integral part of these unaudited 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,	
	2014	2013	2014	2013
REVENUE:				
Tuition and registration fees	$ 225,626	$ 240,261	$ 690,588	$ 767,243
Other	1,826	3,909	6,803	10,446
Total revenue	227,452	244,170	697,391	777,689
OPERATING EXPENSES:				
Educational services and facilities	82,892	90,308	243,690	276,487
General and administrative	161,897	181,688	507,607	559,591
Depreciation and amortization	13,070	15,461	41,063	47,410
Asset impairment	14,461	11,585	21,938	15,668
Total operating expenses	272,320	299,042	814,298	899,156
Operating loss	(44,868)	(54,872)	(116,907)	(121,467)
OTHER INCOME (EXPENSE):				
Interest income	223	194	614	1,199
Interest expense	(103)	(209)	(292)	(1,127)
Loss on sale of business		(39)		(6,973)
Miscellaneous expense	(39)	(63)	(116)	(62)
Total other income (expense)	81	(117)	206	(6,963)
PRETAX LOSS	(44,787)	(54,989)	(116,701)	(128,430)
Provision for (benefit from) income taxes	1,116	(20,087)	3,190	(55,964)
LOSS FROM CONTINUING OPERATIONS	(45,903)	(34,902)	(119,891)	(72,466)
LOSS FROM DISCONTINUED OPERATIONS, net of tax	(2,065)	(52,162)	(32,784)	(61,191)
NET LOSS	(47,968)	(87,064)	(152,675)	(133,657)
OTHER COMPREHENSIVE INCOME (LOSS), net of tax:				
Foreign currency translation adjustments		6,474		7,542

Unrealized (losses) gains on investments	(108)	36	(243)	41
Total other comprehensive (loss) income	(108)	6,510	(243)	7,583
COMPREHENSIVE LOSS	$ (48,076)	$ (80,554)	$ (152,918)	$ (126,074)
NET LOSS PER SHARE BASIC and DILUTED:				
Loss from continuing operations	$ (0.68)	$ (0.52)	$ (1.79)	$ (1.09)
Loss from discontinued operations	(0.03)	(0.78)	(0.48)	(0.91)
Net loss per share	$ (0.71)	$ (1.30)	$ (2.27)	$ (2.00)
WEIGHTED AVERAGE SHARES OUTSTANDING:				
Basic and Diluted	67,209	66,849	67,121	66,663

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

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CAREER EDUCATION CORPORATION AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

	For the Year to Date Ended September 30,	
	2014	**2013**
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$ (152,675)	$ (133,657)
Adjustments to reconcile net loss to net cash used in operating activities:		
Asset impairment	22,006	15,708
Depreciation and amortization expense	42,966	56,619
Bad debt expense	19,107	22,028
Compensation expense related to share-based awards	3,311	5,119
Loss on sale of businesses, net	311	6,973
Loss on disposition of property and equipment	32	103
Changes in operating assets and liabilities	(36,203)	(50,735)
Net cash used in operating activities	(101,145)	(77,842)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of available-for-sale investments	(131,487)	(40,842)
Sales of available-for-sale investments	51,540	52,485
Purchases of property and equipment	(10,558)	(16,602)
Payments of cash upon sale of businesses	(387)	(2,525)
Other		31
Net cash used in investing activities	(90,892)	(7,453)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Issuance of common stock	575	792
Payment on borrowings		(80,000)
Change in restricted cash	(674)	85,314
Payments of capital lease obligations		(210)
Net cash (used in) provided by financing activities	(99)	5,896
EFFECT OF FOREIGN CURRENCY EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS:	121	1,518
NET DECREASE IN CASH AND CASH EQUIVALENTS	(192,015)	(77,881)
DISCONTINUED OPERATIONS CASH ACTIVITY INCLUDED ABOVE:		
Add: Cash balance of discontinued operations, beginning of the period	475	128,207

Less: Cash balance of discontinued operations, end of the period	2	133,098
CASH AND CASH EQUIVALENTS, beginning of the period	318,468	112,415
CASH AND CASH EQUIVALENTS, end of the period	$ 126,926	$ 29,643

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

The colleges, institutions and universities that are part of the Career Education Corporation (CEC) family offer high-quality education to a diverse student population in a variety of career-oriented disciplines through online, on-ground and hybrid learning program offerings. In addition to its online offerings, Career Education serves students from campuses throughout the United States offering programs that lead to doctoral, master s, bachelor s and associate degrees, as well as to diplomas and certificates.

Our institutions include both universities that provide degree programs through the master or doctoral level and colleges that provide programs through the associate and bachelor level. The University group includes American InterContinental University (AIU) and Colorado Technical University (CTU) predominantly serving students online with career-focused degree programs that meet the educational demands of today s busy adults. The Career Schools group offers career-centered education primarily through ground-based campuses and includes Briarcliffe College, Brooks Institute, Harrington College of Design, Le Cordon Bleu North America (LCB), Missouri College and Sanford-Brown Institutes and Colleges (SBI and SBC, respectively). Through our colleges, institutions and universities, we are committed to providing high-quality education, enabling students to graduate and pursue rewarding career opportunities.

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 and year to date ended September 30, 2014 are not necessarily indicative of the results that may be expected for the year ending December 31, 2014.

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 five reporting segments: CTU, AIU (comprises University Schools); Career Colleges, Culinary Arts (comprises Career Schools); and Transitional Schools. Campuses included in our Transitional Schools segment are currently being taught out and no longer enroll new students. These campuses employ a gradual teach-out process, enabling them to continue to operate while current students complete their course of study. The results of operations for campuses within the Transitional Schools segment will be reported within continuing operations for all periods presented until they complete their teach-out. During the third quarter of 2014, the Company announced the teach-out of three additional Sanford-Brown campuses: Chicago, Las Vegas and Orlando. These campuses are now included in the Transitional Schools segment. As campuses within Transitional Schools cease operations during 2014, the results of operations for all periods presented will be reflected within discontinued operations. During the third quarter of 2014, the Company completed the teach-out

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of three Transitional Schools campuses. As a result, all current and prior periods reflect these campuses as components of discontinued operations. All prior period results have been recast to reflect our reporting segments on a comparable basis.

3. RECENT ACCOUNTING PRONOUNCEMENTS

In August 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (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. For public entities, ASU 2014-09 is effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period; early adoption is not permitted. 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 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. For public entities, ASU 2014-08 is effective for fiscal years, and interim periods within those years, beginning on or after December 15, 2014. Early adoption is permitted for disposals that have not been reported in financial statements previously issued. We are currently evaluating the impact that the adoption of ASU 2014-08 will have on our financial condition, results of operations and disclosures.

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We have evaluated and adopted the guidance of the following ASUs issued by the FASB in 2013; adopting these ASUs did not materially impact the presentation of our financial condition, results of operations and disclosures:

ASU No. 2013-11, *Income Taxes (Topic 740): Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists* issued in July 2013. ASU 2013-11 standardizes the financial statement presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists; it does not require new recurring disclosures. ASU 2013-11 requires that an unrecognized tax benefit, or a portion of an unrecognized tax benefit, should be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward unless specific criteria exist, in which case the unrecognized tax benefit should be presented as a liability and should not be combined with deferred tax assets.

ASU No. 2013-05, *Foreign Currency Matters (Topic 830): Parent s Accounting for the Cumulative Translation Adjustment upon Derecognition of Certain Subsidiaries or Groups of Assets within a Foreign Entity or of an Investment in a Foreign Entity* issued in March 2013. ASU 2013-05 provides guidance on releasing cumulative translation adjustments (CTA) when an entity ceases to have a controlling financial interest in a subsidiary or group of assets that is a nonprofit activity or a business within a foreign entity, and also provides guidance on releasing CTA in partial sales of equity method investments and in step acquisitions.

ASU No. 2013-04, *Liabilities (Topic 405): Obligations Resulting from Joint and Several Liability Arrangements for Which the Total Amount of the Obligation is Fixed at the Reporting Date* issued in February 2013. The guidance in ASU 2013-04 requires entities to measure obligations resulting from joint and several liability arrangements, for which the total obligation amount is fixed at the reporting date, as the sum of the amount the reporting entity agreed to pay on the basis of its arrangement among its co-obligors and any additional amount it expects to pay on behalf of its co-obligors. ASU 2013-04 also specifies disclosure requirements.

4. DISCONTINUED OPERATIONS

As of September 30, 2014, the results of operations for campuses that have ceased operations or campuses that were sold, and are considered distinct operations as defined under FASB ASC Topic 205 *Presentation of Financial Statements*, are presented within discontinued operations. During the third quarter of 2014, we completed the teach-out of three campuses (see Note 2, Basis of Presentation of the notes to our unaudited condensed consolidated financial statements). All current and prior period financial statements include the results of operations and financial position for these campuses as components of discontinued operations.

Results of Discontinued Operations

A summary of unaudited results of operations for our discontinued operations for the quarters and years to date ended September 30, 2014 and 2013 is as follows (dollars in thousands):

	For the Quarter Ended September 30,		For the Year to Date Ended September 30,	
	2014	2013	2014	2013
Revenue	$ 29	$ 27,229	$ 3,836	$ 129,118
Loss before income tax	$ (2,065)	$ (21,712)	$ (32,784)	$ (40,714)
Income tax expense (1) (2)		30,450		20,477
Loss from discontinued operations, net of tax	$ (2,065)	$ (52,162)	$ (32,784)	$ (61,191)
Net loss per diluted share	$ (0.03)	$ (0.78)	$ (0.48)	$ (0.91)

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

(2) Third quarter of 2013 included $39.9 million of income tax expense recorded as a result of the decision to commit to a plan of sale for the International Schools segment.

Assets and Liabilities of Discontinued Operations

Assets and liabilities of discontinued operations on our unaudited condensed consolidated balance sheets as of September 30, 2014 and December 31, 2013 include the following (dollars in thousands):

	September 30, 2014	December 31, 2013
Assets:		
Current assets:		
Cash and cash equivalents	$ 2	$ 475
Receivables, net	413	1,437
Other current assets	189	1,329
Total current assets	604	3,241
Non-current assets:		
Property and equipment, net		2,561
Other assets, net	1,029	1,502
Total assets of discontinued operations	$ 1,633	$ 7,304
Liabilities:		
Current liabilities:		
Accounts payable and accrued expenses	$ 521	$ 1,344
Deferred tuition revenue		1,164
Remaining lease obligations	15,493	13,132
Total current liabilities	16,014	15,640
Non-current liabilities:		
Remaining lease obligations	28,143	30,952
Other	286	6,444
Total liabilities of discontinued operations	$ 44,443	$ 53,036

Remaining Lease Obligations

A number of the campuses that ceased operations have remaining lease obligations that expire over time with the latest expiration in 2020. A liability is recorded representing the fair value of the remaining lease obligation at the time the space is no longer being utilized. Changes in our future remaining lease obligations, which are reflected within current and non-current liabilities of discontinued operations on our unaudited condensed consolidated balance sheets, for the quarters and years to date ended September 30, 2014 and 2013, 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 September 30, 2014	$ 50,240	$ (173)	$ (6,581)	$ 150	$ 43,636
For the quarter ended September 30, 2013	$ 41,219	$ 257	$ (3,224)	$	$ 38,252
For the year to date ended September 30, 2014	$ 44,084	$ 13,436	$ (18,637)	$ 4,753	$ 43,636
For the year to date ended September 30, 2013	$ 46,298	$ 1,211	$ (9,192)	$ (65)	$ 38,252

(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 are netted with the losses incurred in the period recorded.

5. FINANCIAL INSTRUMENTS

Investments from our continuing operations consist of the following as of September 30, 2014 and December 31, 2013 (dollars in thousands):

	September 30, 2014			
		Gross Unrealized		
	Cost	Gain	(Loss)	Fair Value
Short-term investments (available for sale):				
Municipal bonds	$ 6,874	$ 1	$ (46)	$ 6,829
Non-governmental debt securities	88,948	8	(187)	88,769
Treasury and federal agencies	15,157	4	(25)	15,136
Total short-term investments	110,979	13	(258)	110,734
Long-term investments (available for sale):				
Municipal bond	7,850		(476)	7,374
Total investments	$ 118,829	$ 13	$ (734)	$ 118,108

	December 31, 2013			
		Gross Unrealized		
	Cost	Gain	(Loss)	Fair Value
Short-term investments (available for sale):				
U.S. Treasury bills	$ 31,591	$ 1	$	$ 31,592
Long-term investments (available for sale):				
Municipal bond	7,850		(476)	7,374
Total investments	$ 39,441	$ 1	$ (476)	$ 38,966

In the table above, unrealized holding gains/(losses) as of September 30, 2014 relate to short-term investments that have been in a continuous unrealized gain/(loss) position for less than one year. The table also includes unrealized holding losses, greater than one year, that relate to our long-term investment in a municipal bond, which is an auction rate security (ARS). When evaluating our investments for possible impairment, we review factors such as the length of time and extent to which fair value has been less than the cost basis, the financial condition of the investee, and our ability and intent to hold the investment for a period of time that may be sufficient for anticipated recovery in fair value. The unrealized loss attributable to our municipal bond at September 30, 2014 is attributable to the continued lack of activity in the ARS market, exposing this investment to liquidity risk.

Our municipal bonds are comprised of debt obligations issued by states, cities, counties and other governmental entities, which earn federally tax-exempt interest. Our investment in ARS has a stated term to maturity of greater than one year, and as such, we classify our investment in ARS as non-current on our unaudited condensed consolidated balance sheets within other assets. An auction can fail when the number of sellers of the security exceeds the buyers for that particular auction period. In the event that an auction fails, the interest rate resets at a rate based on a formula determined by the individual security. The ARS for which auctions have failed continues to accrue interest and is auctioned on a set interval until the auction succeeds, the issuer calls the security, or it matures. As of September 30, 2014, we have determined this investment is at risk for impairment due to the nature of the liquidity of the market over the past year. Cumulative unrealized losses as of September 30, 2014 amount to $0.5 million and are reflected within accumulated other comprehensive loss as a component of stockholders equity. We believe this impairment is temporary, as we do not intend to sell the investment and it is unlikely we will be required to sell the investment before recovery of its amortized cost basis.

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Our non-governmental debt securities primarily consist of corporate bonds and commercial paper. We do not intend to sell our investments in non-governmental debt securities and it is not more likely than not that we will be required to sell these investments before recovery of the amortized cost basis, which may be maturity.

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 for identical assets or liabilities; 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 September 30, 2014, 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, treasury and federal agencies and municipal bonds that are publicly traded and for which market prices are readily available, and our investment in an ARS. 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, 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. During the first quarter of 2014, we reclassified our investments in U.S Treasury bills from Level 1 classification to Level 2. The fair value for these investments was not based on identical assets as of March 31, 2014 which resulted in this reclassification. Our investment in an ARS is categorized as Level 3 and fair value is estimated utilizing a discounted cash flow analysis as of September 30, 2014 which considers, among other items, the collateralization underlying the security investment, the credit worthiness of the counterparty, the timing of expected future cash flows, and the expectation of the next time the security is expected to have a successful auction. The auction event for our ARS investment has failed for multiple years. This security was also compared, when possible, to other observable market data with similar characteristics.

Investments measured at fair value on a recurring basis subject to the disclosure requirements of FASB ASC Topic 820 *Fair Value Measurements* at September 30, 2014 and December 31, 2013 were as follows (dollars in thousands):

	As of September 30, 2014			
	Level 1	Level 2	Level 3	Total
Municipal bonds	$	$ 6,829	$ 7,374	$ 14,203
Non-governmental debt securities		88,769		88,769
Treasury and federal agencies		15,136		15,136
Totals	$	$ 110,734	$ 7,374	$ 118,108

	As of December 31, 2013			
	Level 1	Level 2	Level 3	Total
U.S. Treasury bills	$ 31,592	$	$	$ 31,592
Municipal bond			7,374	7,374

Totals	$ 31,592	$	$ 7,374	$ 38,966

The following table presents a rollforward of our assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) as defined in FASB ASC Topic 820 for the year to date ended September 30, 2014 (dollars in thousands):

Balance at December 31, 2013	$ 7,374
Unrealized gain (loss)	
Balance at September 30, 2014	$ 7,374

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See Note 8 Asset Impairments for further information regarding non-recurring fair value measurements.

Credit Agreement

During the fourth quarter of 2013, we entered into a $70.0 million Amended and Restated Credit Agreement (the Credit Agreement). The revolving credit facility under the Credit Agreement is scheduled to mature on June 30, 2016. As of September 30, 2014, there were no outstanding borrowings under the revolving credit facility and we remain in compliance with the covenants of the Credit Agreement. See Note 14 Subsequent Events for further information regarding recent amendments to the Credit Agreement.

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 and net of deferred tuition revenue. Student receivables, net are reflected on our unaudited condensed consolidated balance sheets as components of both current and non-current assets. We do not recognize interest on 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 unaudited 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 and changes in the current economic, legislative or regulatory environments. 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. The repayment risk associated with student receivables under extended payment plans is generally higher than those not related to extended payment plans; as such, the allowance for doubtful accounts for these student receivables as a percentage of outstanding student receivables is higher.

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 September 30, 2014 and December 31, 2013, the amount of non-current student receivables under these programs, net of allowance for doubtful accounts and net of deferred tuition revenue, was $4.2 million and $5.2 million, respectively.

Student Receivables Valuation Allowance

Changes in our current and non-current receivables allowance for the quarters and years to date ended September 30, 2014 and 2013 were as follows (dollars in thousands):

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	Balance, Beginning of Period	Charges to Expense (1)	Amounts Written-off	Balance, End of Period
For the quarter ended September 30, 2014	$ 24,728	$ 6,779	$ (7,777)	$ 23,730
For the quarter ended September 30, 2013	$ 32,188	$ 7,416	$ (9,204)	$ 30,400
For the year to date ended September 30, 2014	$ 27,576	$ 19,023	$ (22,869)	$ 23,730
For the year to date ended September 30, 2013	$ 38,013	$ 19,755	$ (27,368)	$ 30,400

(1) Charges to expense include an offset for recoveries of amounts previously written off of $2.2 million and $1.5 million for the quarters ended September 30, 2014 and 2013, respectively, and $6.7 million and $5.6 million for the years to date ended September 30, 2014 and 2013, respectively.

Fair Value Measurements

The carrying amount reported in our unaudited 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

Reductions in force have been carried out related to the reorganization of our corporate and campus functions to better align with current total student enrollments and decisions made in the current quarter and previous years to teach out a number of campuses, meaning gradually close the campuses through an orderly process. The remaining Transitional campuses that are in the process of teaching out as of September 30, 2014 will cease operations at various dates through 2017.

The following table details the changes in our accrual for severance and related costs associated with these restructuring events for our continuing operations during the quarters and years to date ended September 30, 2014 and 2013 (dollars in thousands):

	Balance, Beginning of Period	Severance & Related Charges (1)	Payments	Non-cash Adjustments (2)	Balance, End of Period
For the quarter ended September 30, 2014	$ 2,488	$ 3,622	$ (368)	$ (60)	$ 5,682
For the quarter ended September 30, 2013	$ 3,715	$ 1,516	$ (1,308)	$ (401)	$ 3,522
	$ 3,432	$ 3,622	$ (1,099)	$ (273)	$ 5,682

For the year to date ended September 30, 2014					
For the year to date ended September 30, 2013	$ 6,047	$ 4,275	$ (6,115)	$ (685)	$ 3,522

(1) Includes charges related to COBRA and outplacement services which are assumed to be completed by the third month following an employee s departure.

(2) 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 $4.5 million and $2.1 million as of September 30, 2014 and September 30, 2013, respectively, which is recorded within current accrued expenses payroll and related benefits; the long-term portion of $1.2 million and $1.4 million, respectively, is recorded within other non-current liabilities. In addition, as of September 30, 2014, we have accrued approximately $0.8 million related to retention bonuses that have been offered to certain employees involved in the teach-out process. These amounts will be recorded ratably over the period the employees are retained; $0.2 million was recorded during the quarter ended September 30, 2014.

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During the third quarter of 2014, three of our campuses completed their teach-out activities and had remaining lease obligations related to their facilities upon completing their teach-out. The charge recorded during the current quarter related to these discontinued operations was approximately $1.0 million, which represents the net present value of our remaining lease obligation less an estimated amount for sublease income and was recorded within loss from discontinued operations for the current quarter. A number of our teach-out campuses that have not yet closed will have remaining lease obligations following the eventual campus closure, with the longest lease term being through 2021. The total estimated charge related to the remaining lease obligation for these leases, once the campus completes the close process, and adjusted for possible lease buyouts and sublease assumptions is approximately $14 million. The amount related to each campus will be recorded at each campus closure date based on current estimates and assumptions related to the amount and timing of sublease income.

8. ASSET IMPAIRMENTS

Intangible Assets