CAREER EDUCATION CORP
Form 10-Q
November 03, 2016

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, 2016

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 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 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	(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

Number of shares of registrant's common stock, par value $0.01, outstanding as of October 31, 2016: 68,492,085

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, 2016 (unaudited)	December 31, 2015
CURRENT ASSETS:		
Cash and cash equivalents, unrestricted	$ 55,659	$ 66,919
Restricted cash	1,375	49,821
Restricted short-term investments	9,597	-
Short-term investments	151,153	114,901
Total cash and cash equivalents, restricted cash and short-term investments	217,784	231,641
Student receivables, net of allowance for doubtful accounts of $19,304 and $18,013 as of September 30, 2016 and December 31, 2015, respectively	25,457	31,618
Receivables, other, net	876	5,194
Prepaid expenses	12,695	14,380
Inventories	1,829	3,353
Other current assets	954	2,523
Assets of discontinued operations	176	254
Total current assets	259,771	288,963
NON-CURRENT ASSETS:		
Property and equipment, net	45,213	58,249
Goodwill	87,356	87,356
Intangible assets, net	8,700	9,300
Student receivables, net of allowance for doubtful accounts of $1,754 and $2,216 as of September 30, 2016 and December 31, 2015, respectively	3,128	3,958
Deferred income tax assets, net	130,343	137,716
Other assets	8,328	16,562
Assets of discontinued operations	8,634	8,811
TOTAL ASSETS	$ 551,473	$ 610,915
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Short-term borrowings	$ -	$ 38,000
Accounts payable	16,000	25,906
Accrued expenses:		
Payroll and related benefits	33,075	38,789
Advertising and marketing costs	17,041	11,788
Income taxes	1,730	1,061
Other	25,599	24,082
Deferred tuition revenue	30,342	40,112
Liabilities of discontinued operations	7,004	13,067
Total current liabilities	130,791	192,805

NON-CURRENT LIABILITIES:		
Deferred rent obligations	35,664	45,927
Other liabilities	24,133	25,197
Liabilities of discontinued operations	5,862	9,376
Total non-current liabilities	65,659	80,500
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; 83,509,840 and 82,996,585 shares issued, 68,492,083 and 68,098,654 shares outstanding as of September 30, 2016 and December 31, 2015, respectively	835	830
Additional paid-in capital	613,611	610,784
Accumulated other comprehensive income (loss)	87	(880)
Accumulated deficit	(43,354)	(57,518)
Cost of 15,017,757 and 14,897,931 shares in treasury as of September 30, 2016 and December 31, 2015, respectively	(216,156)	(215,606)
Total stockholders' equity	355,023	337,610
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 551,473	$ 610,915

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) INCOME AND COMPREHENSIVE (LOSS) INCOME

(In thousands, except per share amounts)

	For the Quarter Ended September 30,		For the Year to Date Ended September 30,	
	2016	2015	2016	2015
REVENUE:				
Tuition and registration fees	$166,819	$202,179	$546,036	$643,617
Other	806	1,305	3,101	3,709
Total revenue	167,625	203,484	549,137	647,326
OPERATING EXPENSES:				
Educational services and facilities	51,393	74,888	170,993	222,846
General and administrative	111,723	133,177	337,358	442,021
Depreciation and amortization	5,215	5,962	16,986	19,861
Asset impairment	-	33,446	237	50,837
Total operating expenses	168,331	247,473	525,574	735,565
Operating (loss) income	(706)	(43,989)	23,563	(88,239)
OTHER INCOME (EXPENSE):				
Interest income	334	164	900	548
Interest expense	(117)	(170)	(469)	(502)
Loss on sale of business	-	(715)	-	(1,632)
Miscellaneous income (expense)	10	54	(4)	(321)
Total other income (expense)	227	(667)	427	(1,907)
PRETAX (LOSS) INCOME	(479)	(44,656)	23,990	(90,146)
Provision for (benefit from) income taxes	21	35	8,776	(923)
(LOSS) INCOME FROM CONTINUING OPERATIONS	(500)	(44,691)	15,214	(89,223)
LOSS FROM DISCONTINUED OPERATIONS, net of tax	(186)	(544)	(1,050)	(1,616)
NET (LOSS) INCOME	(686)	(45,235)	14,164	(90,839)
OTHER COMPREHENSIVE INCOME, net of tax:				
Foreign currency translation adjustments	47	-	143	-
Unrealized gains on investments	370	81	824	233
Total other comprehensive income	417	81	967	233
COMPREHENSIVE (LOSS) INCOME	$(269)	$(45,154)	$15,131	$(90,606)
NET (LOSS) INCOME PER SHARE - BASIC and DILUTED:				
(Loss) income from continuing operations	$(0.01)	$(0.66)	$0.22	$(1.32)
Loss from discontinued operations	-	(0.01)	(0.01)	(0.02)
Net (loss) income per share	$(0.01)	$(0.67)	$0.21	$(1.34)
WEIGHTED AVERAGE SHARES OUTSTANDING:				

Basic	68,460	67,961	68,328	67,798
Diluted	68,460	67,961	68,889	67,798

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, 2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	$14,164	$(90,839)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Asset impairment	237	50,837
Depreciation and amortization expense	16,986	19,861
Bad debt expense	23,201	15,526
Compensation expense related to share-based awards	2,251	2,453
Loss on sale of businesses, net	-	1,632
Gain on disposition of property and equipment	(438)	(10)
Deferred income taxes	7,373	-
Changes in operating assets and liabilities	(48,060)	(20,463)
Net cash provided by (used in) operating activities	15,714	(21,003)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of available-for-sale investments	(137,755)	(64,056)
Sales of available-for-sale investments	99,718	69,436
Purchases of property and equipment	(3,352)	(7,926)
Proceeds on the sale of assets	3,600	2,272
Payments of cash upon sale of businesses	(62)	(4,125)
Net cash used in investing activities	(37,851)	(4,399)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Issuance of common stock	581	1,082
Payment on borrowings	(38,000)	(10,000)
Change in restricted cash	48,446	9,250
Net cash provided by financing activities	11,027	332
EFFECT OF FOREIGN CURRENCY EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS:	(150)	178
NET DECREASE IN CASH AND CASH EQUIVALENTS	(11,260)	(24,892)
CASH AND CASH EQUIVALENTS, beginning of the period	66,919	93,832
CASH AND CASH EQUIVALENTS, end of the period	$55,659	$68,940

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

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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 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. 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 Transitional Group and Culinary Arts segments. Students enrolled at these campuses are afforded the reasonable opportunity to complete their program of study prior to the final teach-out date.

A 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, 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 September 30, 2016 are not necessarily indicative of the results that may be expected for the full year ending December 31, 2016.

The unaudited condensed consolidated financial statements presented herein include the accounts of Career Education Corporation and our wholly-owned subsidiaries. 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. We organize our business across four reporting segments: CTU, AIU (comprises University Group); Culinary Arts and Transitional Group (comprises Career Schools Group). Campuses included in our Transitional Group and Culinary Arts segments 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 have a reasonable opportunity to complete their course of study. All prior periods have been recast to reflect our segments on a comparable basis.

During the third quarter of 2016, the Company completed the teach-out of five Transitional Group campuses: Sanford-Brown Atlanta, Sanford-Brown Dallas, Sanford-Brown Ft. Lauderdale, Sanford-Brown Iselin and International Academy of Design & Technology Detroit, which continue to be reported within the Transitional Group as of September 30, 2016 in accordance with ASC Topic 360 – Property, Plant and Equipment, which limits discontinued operations reporting.

3. RECENT ACCOUNTING PRONOUNCEMENTS

In August 2016, the FASB issued Accounting Standards Update ("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; early adoption is permitted for all organizations for annual periods and interim periods. 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 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 March 2016, the FASB issued ASU No. 2016-09, Compensation – Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting. This ASU simplified several aspects of accounting for share-based payment award transactions including income tax consequences, classification of excess tax benefits on the statement of cash flows, classification of employee taxes paid on the statement of cash flows when the employer withholds shares, forfeiture policy election and payroll minimum statutory tax withholding. For all public business entities, ASU 2016-09 is effective for annual periods and interim periods beginning after December 15, 2016. We are currently evaluating this guidance and believe the adoption will materially impact our results of operations, particularly related to the provision for (benefit from) income taxes, as well as the presentation of our financial condition and disclosures.

In March 2016, the FASB issued ASU No. 2016-07, Investments – Equity Method and Joint Ventures (Topic 323): Simplifying the Transition to the Equity Method of Accounting. The amendments in this ASU eliminate the requirement that when an investment qualifies for use of the equity method as a result of an increase in the level of ownership interest or degree of influence, an investor must adjust the investments, results of operations, and retained earnings retroactively on a step-by-step basis as if the equity method was in effect during all previous periods. The amendments require an equity method investor to add the cost of acquisition and requires available-for-sale equity securities that qualify for the equity method of accounting to recognize earnings as unrealized holding gain or loss in accumulated other comprehensive income. For all entities, ASU 2016-07 is effective for annual periods and interim periods beginning after December 15, 2016. 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 February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842). The objective of Topic 842 is to establish the principles 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 to use asset at the commencement 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. We are currently evaluating this guidance and believe the adoption will significantly impact the presentation of our financial condition, results of operations and disclosures.

In July 2015, the FASB issued 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 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 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 beginning after December 15, 2016; 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 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. Subsequently, FASB issued four additional Updates to the guidance as follows: 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. In March 2016, the FASB issued ASU 2016-08, providing clarity to improve operability and understandability of the implementation guidance on principal versus agent considerations. In April 2016, the FASB issued ASU 2016-10, to add further guidance on identifying performance obligations and the licensing implementation while retaining the related core principles for those areas. In May 2016, the FASB issued ASU 2016-12, amendments to provide clarity on the objective of the collectability criterion, permit an entity to exclude amounts collected from customers for all sales taxes from the transaction price, specify a measurement date for non-cash consideration, provide a practical expedient permitting an entity to reflect the aggregate effect of all modifications, clarify a completed contract during transition and clarify disclosure requirements for retrospectively applied guidance in Topic 606. 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 the presentation of our financial condition, results of operations and disclosures.

4. DISCONTINUED OPERATIONS

As of September 30, 2016, the results of operations for campuses that have ceased operations prior to 2015 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. Since the January 2015 effective date of the updated guidance within ASC Topic 360, we have not had any campuses that met the criteria to be considered a discontinued operation.

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, 2016 and 2015 were as follows (dollars in thousands):

	For the Quarter Ended September 30,		For the Year to Date Ended September 30,	
	2016	2015	2016	2015
Revenue	$-	$3	$-	$6
Total operating expenses	$295	$547	$1,676	$1,636
Loss before income tax	$(295)	$(544)	$(1,676)	$(1,616)
Benefit from income tax	(109)	-	(626)	-
Loss from discontinued operations, net of tax	$(186)	$(544)	$(1,050)	$(1,616)
Net loss per share - Basic and Diluted	$-	$(0.01)	$(0.01)	$(0.02)

Assets and Liabilities of Discontinued Operations

Assets and liabilities of discontinued operations on our condensed consolidated balance sheets as of September 30, 2016 and December 31, 2015 include the following (dollars in thousands):

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	September 30, 2016	December 31, 2015
Assets:		
Current assets:		
Receivables, net	$ 176	$ 254
Total current assets	176	254
Non-current assets:		
Other assets, net	543	720
Deferred income tax assets, net	8,091	8,091
Total assets of discontinued operations	$ 8,810	$ 9,065
Liabilities:		
Current liabilities:		
Accounts payable and accrued expenses	$ 81	$ 528
Remaining lease obligations	6,923	12,539
Total current liabilities	7,004	13,067
Non-current liabilities:		
Remaining lease obligations	5,698	9,212
Other	164	164
Total liabilities of discontinued operations	$ 12,866	$ 22,443

Remaining Lease Obligations of Discontinued Operations

A number of the campuses that ceased operations prior to January 1, 2015 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 condensed consolidated balance sheets, for the quarters and years to date ended September 30, 2016 and 2015 were as follows (dollars in thousands):

	Balance, Beginning of Period	Charges Incurred (1)	Net Cash Payments	Other	Balance, End of Period
For the quarter ended September 30, 2016	$ 16,149	$ (479)	$ (3,049)	$ -	$ 12,621
For the quarter ended September 30, 2015	$ 27,993	$ (151)	$ (3,275)	$ 50	$ 24,617
For the year to date ended September 30, 2016	$ 21,751	$ (78)	$ (9,052)	$ -	$ 12,621
For the year to date ended September 30, 2015	$ 37,616	$ (564)	$ (12,485)	$ 50	$ 24,617

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

5. FINANCIAL INSTRUMENTS

Investments consist of the following as of September 30, 2016 and December 31, 2015 (dollars in thousands):

	September 30, 2016			
		Gross Unrealized		
	Cost	Gain	(Loss)	Fair Value
Short-term investments (available for sale):				
Municipal bonds	$2,250	$-	$ -	$2,250
Non-governmental debt securities	108,987	37	(67)	108,957
Treasury and federal agencies	39,946	23	(23)	39,946
Total short-term investments	151,183	60	(90)	151,153
Restricted short-term investments (available for sale):				
Non-governmental debt securities	9,597	-	-	9,597
Total investments (available for sale)	$160,780	$60	$ (90)	$160,750

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December 31,
2015