

LAUREATE EDUCATION, INC.
Form 10-Q
August 09, 2007

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

Quarterly Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period ended June 30, 2007 or

Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the transition period from _____ to _____.

Commission File Number 000-22844

LAUREATE EDUCATION, INC.

(Exact name of registrant as specified in its charter)

Maryland

(State or other jurisdiction of
incorporation or organization)

52-1492296

(I.R.S. Employer
Identification No.)

650 S. Exeter Street, Baltimore, Maryland

(Address of principal executive offices)

21202

(Zip Code)

1001 Fleet Street, Baltimore, Maryland

(Former address if changed since last period)

Registrant's telephone number, including area code: **(410) 843-6100**

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes . No .

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

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

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The registrant had 52,030,933 shares of Common Stock, par value \$.01 per share, outstanding as of July 30, 2007.

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SIGNATURES

LAUREATE EDUCATION, INC. AND SUBSIDIARIES
Consolidated Balance Sheets

(Dollar and share amounts in thousands, except per share data)

	June 30, 2007 (unaudited)	December 31, 2006
Assets		
Current assets:		
Cash and cash equivalents	\$ 138,229	\$ 106,886
Restricted cash		33,602
Available-for-sale securities	277	62
Receivables:		
Accounts receivable	181,364	188,567
Notes receivable	119,092	110,157
Other receivables	10,318	12,430
	310,774	311,154
Allowance for doubtful accounts	(60,113)	(51,460)
	250,661	259,694
Inventory, net	6,479	5,803
Deferred income taxes	7,381	5,830
Income tax receivable	40,846	2,633
Prepaid expenses and other current assets	23,907	20,877
Total current assets	467,780	435,387
Notes receivable, less current portion, net of allowance of \$12,227 and \$11,761 at June 30, 2007 and December 31, 2006, respectively	105,861	96,958
Property and equipment:		
Land	139,146	126,598
Buildings	382,377	334,702
Construction in-progress	43,765	58,510
Furniture, computer equipment and software	340,783	295,902
Leasehold improvements	113,947	98,848
	1,020,018	914,560
Accumulated depreciation and amortization	(216,193)	(185,248)
	803,825	729,312
Goodwill	588,032	579,811
Other intangible assets:		
Tradenames and accreditations	297,030	261,009
Other intangible assets, net of accumulated amortization of \$24,828 and \$21,184 at June 30, 2007 and December 31, 2006, respectively	22,704	4,209
	907,766	845,029
Deferred income taxes	28,343	34,870
Deferred costs, net of accumulated amortization of \$19,511 and \$19,418 at June 30, 2007 and December 31, 2006, respectively	29,780	26,928
Other assets	45,199	34,529
Total assets	\$ 2,388,554	\$ 2,203,013

LAUREATE EDUCATION, INC. AND SUBSIDIARIES
Consolidated Balance Sheets (continued)

(Dollar and share amounts in thousands, except per share data)

	June 30, 2007 (unaudited)	December 31, 2006
Liabilities and stockholders equity		
Current liabilities:		
Accounts payable	\$ 51,263	\$ 40,788
Accrued expenses	64,563	60,987
Accrued compensation and benefits	71,033	68,497
Deferred revenue	283,723	290,242
Current portion of long-term debt	62,026	95,668
Current portion of due to shareholders of acquired companies	8,381	21,781
Income tax payable	11,455	23,141
Deferred income taxes	3,040	1,571
Other current liabilities	5,734	6,679
Total current liabilities	561,218	609,354
Long-term debt, less current portion		
Due to shareholders of acquired companies, less current portion	419,901	327,734
Deferred income taxes	35,993	23,484
Income tax payable	33,882	28,159
Other long-term liabilities	58,029	38,163
Total liabilities	1,153,562	1,026,894
Commitments and contingent liabilities		
Minority interest and minority ownership put arrangements	73,044	45,424
Stockholders equity:		
Preferred stock, par value \$.01 per share authorized 10,000 shares, no shares issued and outstanding as of June 30, 2007 and December 31, 2006		
Common stock, par value \$.01 per share authorized 90,000 shares, issued and outstanding shares of 51,726 and 51,426 as of June 30, 2007 and December 31, 2006, respectively		
Additional paid-in capital	517	514
Retained earnings	547,950	538,541
Accumulated other comprehensive income	541,572	537,144
Total stockholders equity	71,909	54,496
Total liabilities and stockholders equity	1,161,948	1,130,695
Total liabilities and stockholders equity	\$ 2,388,554	\$ 2,203,013

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

LAUREATE EDUCATION, INC. AND SUBSIDIARIES
Consolidated Statements of Operations
(Dollar and share amounts in thousands, except per share data)

	Three months ended June 30, 2007	2006 (as restated Note 2)
	(Unaudited)	
Revenues	\$ 375,776	\$ 303,119
Costs and expenses		
Direct costs	295,441	234,831
General and administrative expenses	10,330	11,420
Transaction costs	3,546	
Total costs and expenses	309,317	246,251
Operating income	66,459	56,868
Other income (expense)		
Interest and other income	4,875	4,282
Gain on sale of Chancery Software, Ltd.	809	9,322
Interest expense	(7,903)	(3,662)
Foreign currency exchange loss	(290)	(203)
	(2,509)	9,739
Income from continuing operations before income taxes, minority interest, and equity in net (loss) income of affiliates	63,950	66,607
Income tax expense	(389)	(12,133)
Minority interest in income of consolidated subsidiaries, net of tax	(4,363)	(9,645)
Equity in net (loss) income of affiliates, net of tax	(161)	(102)
Income from continuing operations	59,037	44,727
Loss from discontinued operations, net of income tax expense of \$0 in 2007 and \$314 in 2006	(8)	(1,504)
Loss on disposal of discontinued operations, net of income tax (expense) benefit of \$(103) in 2007 and \$415 in 2006	(103)	(1,182)
Net income	\$ 58,926	\$ 42,041
Earnings available to common shareholders:		
Income from continuing operations	\$ 59,037	\$ 44,727
Effect of minority put arrangements	(6,176)	
Income from continuing operations available to common shareholders	\$ 52,861	\$ 44,727
Net income	\$ 58,926	\$ 42,041
Effect of minority put arrangements	(6,176)	
Net income available to common shareholders	\$ 52,750	\$ 42,041
Earnings per common share, basic:		
Income from continuing operations available to common shareholders	\$ 1.02	\$ 0.87
Net income available to common shareholders	\$ 1.02	\$ 0.82
Earnings per common share, diluted:		
Income from continuing operations available to common shareholders	\$ 0.98	\$ 0.84
Net income available to common shareholders	\$ 0.98	\$ 0.79

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

LAUREATE EDUCATION, INC. AND SUBSIDIARIES
Consolidated Statements of Operations
(Dollar and share amounts in thousands, except per share data)

	Six months ended June 30,	
	2007	2006 (as restated Note 2)
	(Unaudited)	
Revenues	\$ 659,300	\$ 538,229
Costs and expenses		
Direct costs	568,372	460,191
General and administrative expenses	21,366	21,271
Transaction costs	12,849	
Total costs and expenses	602,587	481,462
Operating income	56,713	56,767
Other income (expense)		
Interest and other income	10,970	8,004
Gain on sale of Chancery Software, Ltd.	809	9,322
Interest expense	(15,501)	(7,783)
Foreign currency exchange loss	(622)	(314)
	(4,344)	9,229
Income from continuing operations before income taxes, minority interest, and equity in net (loss) income of affiliates	52,369	65,996
Income tax benefit (expense)	1,257	(12,365)
Minority interest in income of consolidated subsidiaries, net of tax	(5,855)	(11,963)
Equity in net (loss) income of affiliates, net of tax	(350)	(211)
Income from continuing operations	47,421	41,457
Loss from discontinued operations, net of income tax expense of \$0 in 2007 and \$314 in 2006	(17)	(1,673)
Gain (loss) on disposal of discontinued operations, net of income tax (expense) benefit of \$(368) in 2007 and \$991 in 2006	337	(921)
Net income	\$ 47,741	\$ 38,863
Earnings available to common shareholders:		
Income from continuing operations	\$ 47,421	\$ 41,457
Effect of minority put arrangements	(20,937)	
Income from continuing operations available to common shareholders	\$ 26,484	\$ 41,457
Net income	\$ 47,741	\$ 38,863
Effect of minority put arrangements	(20,937)	
Net income available to common shareholders	\$ 26,804	\$ 38,863
Earnings per common share, basic:		
Income from continuing operations available to common shareholders	\$ 0.51	\$ 0.81
Net income available to common shareholders	\$ 0.52	\$ 0.76
Earnings per common share, diluted:		
Income from continuing operations available to common shareholders	\$ 0.49	\$ 0.78
Net income available to common shareholders	\$ 0.50	\$ 0.73

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

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LAUREATE EDUCATION, INC. AND SUBSIDIARIES
Consolidated Statements of Cash Flows
(Dollar amounts in thousands)

	Six Months Ended June 30, 2007	2006 (as restated Note 2)
	(Unaudited)	
Operating activities		
Net income	\$ 47,741	\$ 38,863
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization of fixed assets	27,450	23,408
Amortization	9,533	6,367
(Gain) Loss on disposal of discontinued operations	(337)	921
Gain on sale of Chancery Software, Ltd.	(809)	(9,322)
Gain on sale of assets	(854)	
Non-cash interest expense	1,062	1,033
Non-cash stock compensation expense	5,929	6,711
Bad debt expense	11,977	8,753
Minority interest in consolidated subsidiaries	5,855	11,963
Equity in net income (loss) of affiliates	350	211
Deferred income taxes	(7,040)	(4,558)
Other non-cash items	1,924	(1,835)
Changes in operating assets and liabilities:		
Receivables	(1,026)	40,796
Inventory, prepaid expenses and other current assets	(2,452)	(6,059)
Accounts payable and accrued expenses	11,190	19,142
Income tax receivable	(2,733)	1,241
Income tax payable	(290)	(4,504)
Deferred revenue and other current liabilities	(12,233)	(35,508)
Net cash provided by operating activities	95,237	97,623
Investing activities		
Purchase of available-for-sale securities	(190)	(431)
Change in restricted cash	33,602	
Purchase of property and equipment, net	(86,179)	(85,867)
Cash loaned in exchange for notes receivable	(2,609)	(3,123)
Cash paid for acquisitions, including deferred consideration, net of cash acquired	(49,060)	(10,440)
Expenditures for deferred costs	(14,375)	(2,068)
Change in other long-term assets	(621)	832
Net cash used in investing activities	(119,432)	(101,097)
Financing activities		
Proceeds from exercise of options	4,900	17,862
Proceeds from issuance of long-term debt	174,542	63,240
Payments on long-term debt	(125,310)	(69,043)
Change in other long-term liabilities and other financing activities	(1,020)	1,876
Net cash provided by financing activities	53,112	13,935
Effects of exchange rate changes on cash	2,426	88
Net change in cash and cash equivalents	31,343	10,549
Cash and cash equivalents at beginning of period	106,886	106,014
Cash and cash equivalents at end of period	\$ 138,229	\$ 116,563

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

Laureate Education, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

(Dollar and share amounts in thousands, except per share data)

Note 1 Description of Business and Basis of Presentation

Laureate Education, Inc. and subsidiaries (the Company) provides higher education programs and services to students through the global network of licensed campus-based and online universities and higher education institutions (higher education institutions). The Company's educational offerings are delivered through three separate reportable segments: Campus Based - Latin America (Latin America), Campus Based - Europe (Europe) and Laureate Online Education. The campus-based segments of Latin America and Europe own or maintain controlling interests in thirteen and ten separately licensed higher education institutions, respectively. The Latin America segment has locations in Mexico, Chile, Brazil, Peru, Ecuador, Panama, Costa Rica, and Honduras. The Europe segment has locations in Spain, Switzerland, France, and Cyprus. The Laureate Online Education segment provides career-oriented degree programs to working adult students through Walden E-Learning, Inc. (Walden), Laureate Online Education BV, and Canter and Associates (Canter).

The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. These financial statements should be read in conjunction with the audited consolidated financial statements of the Company for the fiscal year ended December 31, 2006, included in the Company's Annual Report on Form 10-K. Operating results for the three- and six-month periods ended June 30, 2007 are not necessarily indicative of the results that may be expected for the year ending December 31, 2007.

Certain amounts previously reported for 2006, including a reclassification of \$4,214 from additional paid-in capital to retained earnings and a reclassification from prepaid expenses and other current assets to cash of \$9,899, have been reclassified to conform to the 2007 presentation. As discussed more fully in Note 4, certain business components are classified as discontinued operations in the accompanying consolidated financial statements.

On June 3, 2007, the Company entered into an Amended and Restated Agreement and Plan of Merger (the Amended and Restated Merger Agreement) with Wengen Alberta, Limited Partnership, an Alberta limited partnership (Parent), and L Curve Sub Inc., a Maryland corporation and a direct subsidiary of Parent (L Curve). The Amended and Restated Merger Agreement amends and restates the Agreement and Plan of Merger dated as of January 28, 2007 among the same parties. Pursuant to the Amended and Restated Merger Agreement, L Curve assigned some of its rights and obligations under the Amended and Restated Merger Agreement to M Curve Sub Inc., a Maryland corporation and a direct subsidiary of Parent (M Curve), and together with L Curve, the Purchasers), including the right to acquire shares of the Company's common stock in the Offer (as defined below). On June 8, 2007, L Curve and M Curve commenced a tender offer (the Offer) to purchase all of the Company's outstanding shares of common stock, par value \$0.01 per share (the Shares), at a price of \$62.00 per Share, net to the seller in cash (subject to applicable withholding tax), without interest, on the terms and subject to the conditions set forth in the Amended and Restated Merger Agreement. The Amended and Restated Merger Agreement was filed in a Current Report on Form 8-K filed with the Securities and Exchange Commission on June 4, 2007. The foregoing description of the Amended and Restated Merger Agreement is qualified in its entirety by reference to the full text of the Amended and Restated Merger Agreement.

On July 6, 2007, at 12:00 midnight, Eastern Standard Time, the initial offering period expired. During the initial offering period, the Company's stockholders had tendered and not withdrawn, and the Purchasers accepted for payment, 30,696,311 shares of the Company's common stock (including shares tendered pursuant to the guaranteed delivery procedures), which represented approximately 53% of the then outstanding shares of the Company's common stock on a fully diluted basis and approximately 59% of the then outstanding shares and therefore satisfied the minimum condition of the Offer, which required the tender of a majority of the Company's outstanding shares on a fully diluted basis (other than any shares held by Parent and its subsidiaries).

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On July 9, 2007, Parent commenced a subsequent offering period, which expired at 5:00 p.m., Eastern Standard Time, on July 18, 2007. As of the expiration of the subsequent offering period, the Company's stockholders had tendered a total of 46,524,370 shares of the Company's common stock, which represented approximately 89% of the then outstanding shares.

In the Amended and Restated Merger Agreement, the Company granted Purchasers the option (the Top-Up Option) to purchase, at a price per Share equal to \$62.00, a number of newly issued Shares equal to the number of Shares that, when added to the number of Shares owned, directly or indirectly, by Parent or Purchasers at the time of exercise of the Top-Up Option, constitutes one Share more than 90% of the total Shares that would be outstanding immediately after the issuance of all Shares subject to the Top-Up Option. On July 25, 2007, the Company received written notice that the Purchasers intended to exercise the Top-Up Option on August 14, 2007 and acquire 3,034,734 shares of the Company's common stock (the Top-Up Shares). The Top-Up Shares will be paid for the delivery by the Purchasers of a promissory note (a Note) for the aggregate principal amount of approximately of \$188,153,508. The Note will be due and payable one year from the date of its issue, bear interest at the rate of 3% per annum, and is pre-payable at any time without penalty at Purchasers' option. The Top-Up Shares will be issued without registration under the Securities Act of 1933, as amended (the Securities Act), in reliance upon the exemption from registration set forth in Section 4(2) of the Securities Act.

Immediately after the issuance of the Top-Up Shares, Purchasers will own more than 90% of the outstanding shares of the Company's common stock and permit the completion of a short-form merger under applicable Maryland law, without a vote of the Company's stockholders. Accordingly, Purchasers will acquire the remaining shares of the Company's common stock in a short-form merger in which all remaining Company stockholders who did not tender their shares in the Offer will receive the same \$62.00 per share in cash paid in the Offer.

Subsequent to June 30, 2007, as a result of the Purchaser's acquisition of approximately 89% of the then outstanding shares, the Company expects to voluntarily apply purchase accounting at the Laureate Education, Inc. reporting entity level as of July 31, 2007 pursuant to Staff Accounting Bulletin Topic 5J, Push Down Basis of Accounting Required in Certain Limited Circumstances.

As a result of the merger process, the Company expects to incur significant additional indebtedness of approximately \$1,840,000 which consists of several types of debt instruments including a revolving credit facility and other fixed instruments with maturities ranging from seven to nine years.

Note 2 Significant Accounting Policies

Effect of Minority Share Ownership Purchase Arrangements on 2006 Financial Statements

In the fourth quarter of 2006, the Company reevaluated the accounting for and the financial statement presentation of new and pre-existing put and call option agreements entered into in connection with certain acquisitions. The three and six months ended June 30, 2006 have been restated to reflect the proper accounting of these pre-existing put and call agreements.

The following amounts represent the impact on each financial statement line affected by the Company's accounting of the minority share ownership purchase arrangements on the statement of operations for the quarter and six-months ended June 30, 2006.

	Three-Months Ended June 30, 2006	Six-Months Ended June 30, 2006
Statement of Operations		
<i>Increase (decrease) to:</i>		
Direct costs	\$ 121	\$ 245
Operating income	(121)	(245)
Interest expense	(519)	(1,033)
Minority interest in income of consolidated subsidiaries, net of tax	4,702	2,841
Income from continuing operations	4,062	1,563
Net income	\$ 4,062	\$ 1,563
<i>Increase (decrease) to:</i>		
Earnings per common share, basic:		

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Income from continuing operations	\$	0.08	\$	0.03
Net income	\$	0.08	\$	0.03

Earnings per common share, diluted:

Income from continuing operations