

LAUREATE EDUCATION, INC.

Form 10-Q

November 08, 2018

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 September 30, 2018

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: 001-38002

Laureate Education, Inc.

(Exact name of registrant as specified in its charter)

Delaware 52-1492296

(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification No.)

650 S. Exeter Street, Baltimore, Maryland 21202

(Address of principal executive offices) (Zip Code)

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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) 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, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth 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 Emerging Growth Company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Outstanding at September 30, 2018
Class A common stock, par value \$0.004 per share	91,654,217 shares
Class B common stock, par value \$0.004 per share	132,386,666 shares

INDEX		Page No.
PART I. - FINANCIAL INFORMATION		
Item 1. Financial Statements (Unaudited)		
Consolidated Statements of Operations - Three months ended September 30, 2018 and September 30, 2017		<u>2</u>
Consolidated Statements of Operations - Nine months ended September 30, 2018 and September 30, 2017		<u>3</u>
Consolidated Statements of Comprehensive Income - Three months ended September 30, 2018 and September 30, 2017		<u>4</u>
Consolidated Statements of Comprehensive Income - Nine months ended September 30, 2018 and September 30, 2017		<u>5</u>
Consolidated Balance Sheets - September 30, 2018 and December 31, 2017		<u>6</u>
Consolidated Statements of Cash Flows - Nine months ended September 30, 2018 and September 30, 2017		<u>8</u>
Notes to Consolidated Financial Statements		<u>9</u>
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations		<u>44</u>
Item 3. Quantitative and Qualitative Disclosures About Market Risk		<u>72</u>
Item 4. Controls and Procedures		<u>72</u>
PART II. - OTHER INFORMATION		
Item 1. Legal Proceedings		<u>75</u>
Item 1A. Risk Factors		<u>77</u>
Item 6. Exhibits		<u>82</u>
SIGNATURES		<u>87</u>

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements (Unaudited)

LAUREATE EDUCATION, INC. AND SUBSIDIARIES

Consolidated Statements of Operations

IN THOUSANDS, except per share amounts

For the three months ended September 30,	2018 (Unaudited)	2017 (Unaudited)
Revenues	\$ 787,102	\$ 818,601
Costs and expenses:		
Direct costs	677,816	728,743
General and administrative expenses	73,680	64,999
Loss on impairment of assets	10,030	—
Operating income	25,576	24,859
Interest income	3,502	3,677
Interest expense	(58,319)	(69,103)
Loss on derivatives	(144)	(19,930)
Other income (expense), net	8,312	(778)
Foreign currency exchange (loss) gain, net	(26,492)	6,624
Loss from continuing operations before income taxes	(47,565)	(54,651)
Income tax benefit (expense)	3,773	(12,530)
Loss from continuing operations	(43,792)	(67,181)
Loss from discontinued operations, net of tax benefit (expense) of \$2,905 and \$(1,329), respectively	(34,466)	(36,309)
Loss on sales of discontinued operations, net of tax expense of \$2,694 and \$0	(18,426)	—
Net loss	(96,684)	(103,490)
Net loss attributable to noncontrolling interests	1,895	5,531
Net loss attributable to Laureate Education, Inc.	\$(94,789)	\$(97,959)
Accretion of Series A convertible redeemable preferred stock and other redeemable noncontrolling interests and equity	324	(84,060)
Net loss available to common stockholders	\$(94,465)	\$(182,019)
Basic and diluted loss per share:		
Loss from continuing operations	\$(0.18)	\$(0.82)
Loss from discontinued operations	(0.24)	(0.20)
Basic and diluted loss per share	\$(0.42)	\$(1.02)

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

LAUREATE EDUCATION, INC. AND SUBSIDIARIES
Consolidated Statements of Operations
IN THOUSANDS, except per share amounts

For the nine months ended September 30,	2018	2017
	(Unaudited)	(Unaudited)
Revenues	\$2,436,514	\$2,434,687
Costs and expenses:		
Direct costs	2,081,125	2,110,901
General and administrative expenses	194,184	221,909
Loss on impairment of assets	10,030	—
Operating income	151,175	101,877
Interest income	9,358	9,702
Interest expense	(181,764)	(256,677)
Loss on debt extinguishment	(7,481)	(8,425)
Gain on derivatives	92,112	19,187
Other income (expense), net	10,815	(568)
Foreign currency exchange loss, net	(43,942)	(2,221)
Income (loss) from continuing operations before income taxes and equity in net income of affiliates	30,273	(137,125)
Income tax expense	(65,822)	(13,668)
Equity in net income of affiliates, net of tax	—	1
Loss from continuing operations	(35,549)	(150,792)
Income from discontinued operations, net of tax expense of \$39,712 and \$15,125, respectively	22,459	44,047
Gain on sales of discontinued operations, net, including tax benefit of \$18,097 and \$0, respectively	311,904	—
Net income (loss)	298,814	(106,745)
Net (income) loss attributable to noncontrolling interests	(315)	2,365
Net income (loss) attributable to Laureate Education, Inc.	\$298,499	\$(104,380)
Accretion of Series A convertible redeemable preferred stock and other redeemable noncontrolling interests and equity	(61,403)	(192,141)
Gain upon conversion of Series A convertible redeemable preferred stock	74,110	—
Net income (loss) available to common stockholders	\$311,206	\$(296,521)
Basic earnings (loss) per share:		
Income (loss) from continuing operations	\$(0.10)	\$(2.03)
Income from discontinued operations	1.59	0.26
Basic earnings (loss) per share	\$1.49	\$(1.77)
Diluted earnings (loss) per share:		
Loss from continuing operations	\$(0.16)	\$(2.03)
Income from discontinued operations	1.59	0.26
Diluted earnings (loss) per share	\$1.43	\$(1.77)

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

LAUREATE EDUCATION, INC. AND SUBSIDIARIES
 Consolidated Statements of Comprehensive Income
 IN THOUSANDS

For the three months ended September 30,	2018	2017
	(Unaudited)	(Unaudited)
Net loss	\$(96,684)	\$(103,490)
Other comprehensive (loss) income:		
Foreign currency translation adjustment, net of tax of \$0 for both periods	(52,750)	64,742
Unrealized (loss) gain on derivative instruments, net of tax of \$0 for both periods	(560)	525
Total other comprehensive (loss) income	(53,310)	65,267
Comprehensive loss	(149,994)	(38,223)
Net comprehensive loss attributable to noncontrolling interests	1,683	4,065
Comprehensive loss attributable to Laureate Education, Inc.	\$(148,311)	\$(34,158)

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

LAUREATE EDUCATION, INC. AND SUBSIDIARIES
 Consolidated Statements of Comprehensive Income
 IN THOUSANDS

For the nine months ended September 30,	2018	2017
	(Unaudited)	(Unaudited)
Net income (loss)	\$ 298,814	\$ (106,745)
Other comprehensive (loss) income:		
Foreign currency translation adjustment, net of tax of \$0 for both periods	(166,052)	196,593
Unrealized gain on derivative instruments, net of tax of \$0 for both periods	11,776	6,625
Minimum pension liability adjustment, net of tax of \$0	376	—
Total other comprehensive (loss) income	(153,900)	203,218
Comprehensive income	144,914	96,473
Net comprehensive (income) loss attributable to noncontrolling interests	(719)	10
Comprehensive income attributable to Laureate Education, Inc.	\$ 144,195	\$ 96,483

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

LAUREATE EDUCATION, INC. AND SUBSIDIARIES

Consolidated Balance Sheets

IN THOUSANDS, except per share amounts

	September 30, 2018 (Unaudited)	December 31, 2017 (Unaudited)
Assets		
Current assets:		
Cash and cash equivalents (includes VIE amounts of \$146,927 and \$100,971, see Note 2)	\$392,348	\$ 320,567
Restricted cash	196,790	212,215
Receivables:		
Accounts and notes receivable	571,240	474,456
Other receivables	17,500	15,175
Allowance for doubtful accounts	(164,101)	(178,566)
Receivables, net	424,639	311,065
Income tax receivable	16,454	38,231
Prepaid expenses and other current assets	77,554	81,948
Current assets held for sale	346,702	324,668
Total current assets (includes VIE amounts of \$642,133 and \$407,315, see Note 2)	1,454,487	1,288,694
Notes receivable, net	12,171	3,528
Property and equipment:		
Land	229,455	243,179
Buildings	642,040	669,973
Furniture, equipment and software	961,712	977,382
Leasehold improvements	359,466	366,735
Construction in-progress	45,792	62,474
Accumulated depreciation and amortization	(980,778)	(939,326)
Property and equipment, net	1,257,687	1,380,417
Land use rights, net	1,631	1,572
Goodwill	1,709,586	1,828,365
Other intangible assets:		
Tradenames	1,130,186	1,167,302
Other intangible assets, net	25,455	35,779
Deferred costs, net	65,896	60,931
Deferred income taxes	150,530	152,398
Derivative instruments	682	48,186
Other assets	174,881	199,441
Long-term assets held for sale	1,007,344	1,224,672
Total assets (includes VIE amounts of \$1,334,870 and \$1,419,579, see Note 2)	\$6,990,536	\$ 7,391,285

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

LAUREATE EDUCATION, INC. AND SUBSIDIARIES

Consolidated Balance Sheets (continued)

IN THOUSANDS, except per share amounts

	September 30, 2018 (Unaudited)	December 31, 2017 (Unaudited)
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	\$51,395	\$70,137
Accrued expenses	269,255	239,620
Accrued compensation and benefits	173,718	215,760
Deferred revenue and student deposits	465,290	184,116
Current portion of long-term debt	104,502	121,870
Current portion of due to shareholders of acquired companies	23,065	34,745
Income taxes payable	13,713	20,553
Derivative instruments	35	4,458
Other current liabilities	42,063	31,761
Current liabilities held for sale	394,229	451,569
Total current liabilities (includes VIE amounts of \$314,860 and \$341,147, see Note 2)	1,537,265	1,374,589
Long-term debt, less current portion	2,505,498	2,973,396
Due to shareholders of acquired companies, less current portion	20,045	37,040
Deferred compensation	13,383	14,470
Income taxes payable	73,275	106,062
Deferred income taxes	257,083	247,371
Derivative instruments	7,258	9,390
Other long-term liabilities	239,053	221,941
Long-term liabilities held for sale	353,338	405,747
Total liabilities (includes VIE amounts of \$382,380 and \$449,561, see Note 2)	5,006,198	5,390,006
Series A convertible redeemable preferred stock, par value \$0.001 per share – 111 shares authorized, no shares issued and outstanding as of September 30, 2018 and 512 shares authorized, 401 shares issued and outstanding as of December 31, 2017	—	400,276
Redeemable noncontrolling interests and equity	12,671	13,721
Stockholders' equity:		
Preferred stock, par value \$0.001 per share – 49,889 and 49,488 shares authorized as of September 30, 2018 and December 31, 2017, respectively, no shares issued and outstanding as of September 30, 2018 and December 31, 2017	—	—
Class A common stock, par value \$0.004 per share – 700,000 shares authorized, 91,654 shares issued and outstanding as of September 30, 2018 and 55,052 shares issued and outstanding as of December 31, 2017	366	220
Class B common stock, par value \$0.004 per share – 175,000 shares authorized, 132,387 shares issued and outstanding as of September 30, 2018 and 132,443 shares issued and outstanding as of December 31, 2017	530	530
Additional paid-in capital	3,705,707	3,446,206
Accumulated deficit	(643,407)	(946,236)
Accumulated other comprehensive loss	(1,079,860)	(925,556)
Total Laureate Education, Inc. stockholders' equity	1,983,336	1,575,164
Noncontrolling interests	(11,669)	12,118
Total stockholders' equity	1,971,667	1,587,282

Total liabilities and stockholders' equity	\$6,990,536	\$7,391,285
--	-------------	-------------

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

7

LAUREATE EDUCATION, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

IN THOUSANDS

For the nine months ended September 30,

	2018	2017
Cash flows from operating activities	(Unaudited)	(Unaudited)
Net income (loss)	\$ 298,814	\$(106,745)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	189,961	199,394
Loss on impairment of assets	10,030	—
(Gain) loss on sales of subsidiaries and disposal of property and equipment, net	(292,999)	3,050
Gain on derivative instruments	(92,749)	(19,621)
Proceeds from settlement of derivative contracts	14,117	—
Loss on debt extinguishment	7,481	8,425
Non-cash interest expense	14,651	29,809
Interest paid on deferred purchase price for acquisitions	—	(39,419)
Non-cash share-based compensation expense	10,492	43,969
Bad debt expense	83,029	88,677
Deferred income taxes	(389)	(21,787)
Unrealized foreign currency exchange loss	53,731	4,852
Non-cash (gain) loss from non-income tax contingencies	(843)	4,032
Other, net	(11,607)	1,637
Changes in operating assets and liabilities:		
Receivables	(288,747)	(344,661)
Prepaid expenses and other assets	(50,919)	(69,843)
Accounts payable and accrued expenses	(6,263)	14,624
Income tax receivable/payable, net	(10,084)	(19,815)
Deferred revenue and other liabilities	428,664	435,173
Net cash provided by operating activities	356,370	211,751
Cash flows from investing activities		
Purchase of property and equipment	(150,458)	(134,629)
Expenditures for deferred costs	(13,182)	(12,712)
Receipts from sales of discontinued operations and property and equipment, net of cash sold	375,792	1,180
Settlement of derivatives related to sale of discontinued operations	(9,960)	—
Proceeds from corporate-owned life insurance and property insurance recoveries	24,641	370
Business acquisitions, net of cash acquired	—	(835)
Payments (to) from related parties and investments in affiliates	(8)	349
Net cash provided by (used in) investing activities	226,825	(146,277)
Cash flows from financing activities		
Proceeds from issuance of long-term debt, net of original issue discount	383,594	2,349,673
Payments on long-term debt	(838,542)	(2,695,511)
Payments of deferred purchase price for acquisitions	(17,588)	(93,813)
Payments to purchase noncontrolling interests	(127)	—
Proceeds from issuance of convertible redeemable preferred stock, net of issuance costs	—	55,290
Payment of dividends on Series A Preferred Stock	(11,103)	(5,252)
Proceeds from initial public offering, net of issuance costs	—	456,359
Withholding of shares to satisfy tax withholding for vested stock awards	(1,744)	(1,725)
Payments of debt issuance costs and redemption and call premiums for debt modification	(490)	(76,523)
Noncontrolling interest holder's loan to subsidiaries	—	943

Edgar Filing: LAUREATE EDUCATION, INC. - Form 10-Q

Distributions to noncontrolling interest holders	(912)	(847)
Net cash used in financing activities	(486,912)	(11,406)
Effects of exchange rate changes on Cash and cash equivalents and Restricted cash	(4,535)	25,965	
Change in cash included in current assets held for sale	(35,392)	(68,100)
Net change in Cash and cash equivalents and Restricted cash	56,356		11,933	
Cash and cash equivalents and Restricted cash at beginning of period	532,782		474,337	
Cash and cash equivalents and Restricted cash at end of period	\$ 589,138		\$ 486,270	

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

Laureate Education, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
(Dollars and shares in thousands)
Note 1. Description of Business

Laureate Education, Inc. and subsidiaries (hereinafter Laureate, we, us, our, or the Company) provide higher education programs and services to students through an international network of licensed universities and higher education institutions (institutions). Laureate's programs are provided through institutions that are campus-based and internet-based, or through electronically distributed educational programs (online). On October 1, 2015, we redomiciled in Delaware as a public benefit corporation as a demonstration of our long-term commitment to our mission to benefit our students and society.

The Company's shares are listed on the Nasdaq Global Select Market under the symbol "LAUR". In its initial public offering (IPO) on February 6, 2017, the Company sold 35,000 shares of its Class A common stock in the IPO at a price of \$14.00 per share, resulting in net proceeds to the Company during the first quarter of 2017, after deducting underwriting discounts and commissions and offering expenses payable by us, of \$456,359.

On August 9, 2018, the Company announced that it plans to divest additional subsidiaries located in Europe, Asia and Central America, which are included in the Rest of World (formerly called EMEAA), Andean (formerly called Andean & Iberian), and Central America & U.S. Campuses segments. Previously, the Company had announced the divestiture of certain subsidiaries in the Rest of World and Central America & U.S. Campuses segments. After completing all of these announced divestitures, the Company's remaining principal markets will be Brazil, Chile, Mexico and Peru, along with the Online & Partnerships segment and the institutions in Australia and New Zealand. This represents a strategic shift that will have a major effect on the Company's operations and financial results. Accordingly, all of the divestitures that are part of this strategic shift, including the divestitures announced on August 9, 2018 and those announced previously, are now accounted for as discontinued operations for all periods presented in accordance with Accounting Standards Codification (ASC) 205-20, "Discontinued Operations" (ASC 205). See Note 4, Discontinued Operations and Assets Held for Sale, for more information. Unless indicated otherwise, the information in the footnotes to the Consolidated Financial Statements relates to continuing operations.

The accompanying unaudited Consolidated Financial Statements have been prepared in accordance with accounting principles generally accepted in the United States (GAAP) for interim financial information and with the instructions to Form 10-Q. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In our opinion, these financial statements include all adjustments considered necessary to present a fair statement of our consolidated results of operations, financial position and cash flows. Operating results for any interim period are not necessarily indicative of the results that may be expected for the full year. These unaudited Consolidated Financial Statements should be read in conjunction with Laureate's audited Consolidated Financial Statements included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2017 (the 2017 Form 10-K).

Note 2. Significant Accounting Policies

The Variable Interest Entity (VIE) Arrangements

Laureate consolidates in its financial statements certain internationally based educational organizations that do not have shares or other equity ownership interests. Although these educational organizations may be considered not-for-profit entities in their home countries and they are operated in compliance with their respective not-for-profit legal regimes, we believe they do not meet the definition of a not-for-profit entity under GAAP, and therefore we treat them as "for-profit" entities for accounting purposes. These entities generally cannot declare dividends or distribute their net assets to the entities that control them.

Under ASC 810-10, "Consolidation," we have determined that these institutions are VIEs and that Laureate is the primary beneficiary of these VIEs because we have, as further described herein: (1) the power to direct the activities of the VIEs that most significantly affect their educational and economic performance and (2) the right to receive economic benefits from contractual and other arrangements with the VIEs that could potentially be significant to the VIEs. We account for the acquisition of the right to control a VIE in accordance with ASC 805, "Business Combinations."

The VIEs in Brazil and Mexico comprise several not-for-profit foundations that have insignificant revenues and operating expenses. Selected Consolidated Statements of Operations information for VIEs that are included in continuing operations was as follows, net of the charges related to the above-described contractual arrangements:

	For the three months ended September 30, 2018	For the nine months ended September 30, 2017
Selected Statements of Operations information:		
Revenues, by segment:		
Brazil	\$ — \$ 11	\$ — \$ 57
Mexico	4 —	89 —
Andean	119,884,494	325,420,385
Revenues	119,888,505	325,509,442
Depreciation and amortization	6,163,626	19,320,397
Operating income (loss), by segment:		
Brazil	(16 (23)	(56 (30)
Mexico	(121 (163)	(349 (516)
Andean	12,954,613	7,714,545
Operating income (loss)	12,867,427	7,309,409
Net income	18,810,928	22,860,308
Net income attributable to Laureate Education, Inc.	18,810,928	22,860,308

The following table reconciles the Net income (loss) attributable to Laureate Education, Inc. as presented in the table above, to the amounts in our Consolidated Statements of Operations:

	For the three months ended September 30,		For the nine months ended September 30,	
	2018	2017	2018	2017
Net (loss) income attributable to Laureate Education, Inc.:				
Variable interest entities	\$ 18,812	\$ 10,928	\$ 22,860	\$ 8,308
Other operations	21,564	40,366	241,920	278,804
Corporate and eliminations	(135,165)	(149,253)	33,719	(391,492)
Net (loss) income attributable to Laureate Education, Inc.	\$(94,789)	\$(97,959)	\$298,499	\$(104,380)

The following table presents selected assets and liabilities of the consolidated VIEs. Except for Goodwill, the assets in the table below include the assets that can be used only to settle the obligations for the VIEs. The liabilities in the table are liabilities for which the creditors of the VIEs do not have recourse to the general credit of Laureate.

Selected Consolidated Balance Sheet amounts for these VIEs were as follows:

	September 30, 2018		December 31, 2017	
	VIE	Consolidated	VIE	Consolidated
Balance Sheets data:				
Cash and cash equivalents	\$ 146,927	\$ 392,348	\$ 100,971	\$ 320,567
Current assets held for sale	170,886	346,702	170,229	324,668
Other current assets	324,320	715,437	136,115	643,459
Total current assets	642,133	1,454,487	407,315	1,288,694
Goodwill	174,600	1,709,586	183,812	1,828,365
Tradenames	69,107	1,130,186	74,484	1,167,302
Other intangible assets, net	—	25,455	—	35,779
Long-term assets held for sale	151,310	1,007,344	369,375	1,224,672
Other long-term assets	297,720	1,663,478	384,593	1,846,473
Total assets	1,334,870	6,990,536	1,419,579	7,391,285
Current liabilities held for sale	114,569	394,229	183,166	451,569
Other current liabilities	200,291	1,143,036	157,981	923,020
Long-term liabilities held for sale	38,696	353,338	84,760	405,747
Long-term debt and other long-term liabilities	28,824	3,115,595	23,654	3,609,670
Total liabilities	382,380	5,006,198	449,561	5,390,006
Total stockholders' equity	952,490	1,971,667	970,018	1,587,282
Total stockholders' equity attributable to Laureate Education, Inc.	952,317	1,983,336	948,966	1,575,164

On January 24, 2018, a new Higher Education Law (the New Law) was passed by the Chilean Congress. On March 27, 2018, the Constitutional Court declared unconstitutional Article 63 of the New Law, which would have prohibited for-profit organizations such as Laureate from controlling the boards of universities in Chile. The Constitutional Court released its opinion on April 26, 2018, and signature and enactment of the New Law occurred in May 2018. Among other things left intact by the Constitutional Court, the New Law prohibits conflicts of interests and related party transactions with certain exceptions, including the provision of services that are educational in nature or essential for the university's purposes. The New Law provides for a transition period. The incoming Chilean presidential administration, which took office on March 11, 2018, has the responsibility to implement the new legislative mandates

and compliance processes.

The Company is reviewing the impact the New Law will have on its Chilean operations, including the extent to which it will affect existing contractual relationships that the Company maintains with the Chilean non-profit universities. As the New Law no longer

11

contains provisions that prohibit Laureate from controlling the boards of the Chilean non-profit universities, but still requires the promulgation of new regulations and procedures that will be applicable to any commercial relationship that the Company has with the Chilean non-profit universities, the Company has determined that it will continue to consolidate the three Chilean non-profit universities, which are accounted for as variable interest entities, and its Chilean real estate subsidiary.

While we believe that all of our institutions in Chile are operating in full compliance with Chilean law, we cannot predict the extent or outcome of any educational reforms that may be implemented in Chile. The Company does not believe the New Law will change its relationship with its two tech/voc institutions in Chile that are for-profit entities. However, it is possible that the Chilean government will adopt additional laws that affect for-profit tech/voc institutions and their relationships with their owners. Depending upon how these reforms are defined and implemented, there could be a material adverse effect on our financial condition and results of operations.

Allowance for Doubtful Accounts

Receivables are deemed to be uncollectible when they have been outstanding for two years, or earlier when collection efforts have ceased, at which time they are written off. Prior to that, Laureate records an allowance for doubtful accounts to reduce our receivables to their net realizable value. Our allowance estimation methodology is based on the age of the receivables, the status of past-due amounts, historical collection trends, current economic conditions and student enrollment status. In the event that current collection trends differ from historical trends, an adjustment is made to the allowance account and bad debt expense.

The reconciliations of the beginning and ending balances of the Allowance for doubtful accounts were as follows:

For the nine months ended September 30,	2018	2017
Balance at beginning of period	\$182,965	\$169,014
Additions: charges to bad debt expense	74,969	79,408
Deductions ^(a)	(90,494)	(68,155)
Balance at end of period	\$167,440	\$180,267

^(a) Deductions includes accounts receivable written off against the allowance (net of recoveries), reclassifications, and foreign

currency translation. The beginning and ending balances of the Allowance for doubtful accounts include the current portion, as shown on the face of Consolidated Balance Sheets, in addition to the noncurrent portion that is included in

Notes receivable, net on the Consolidated Balance Sheets.

Impairment of Long-lived Assets

Effective September 30, 2018, the University of Liverpool (Liverpool), an institution in our Online & Partnerships segment, elected not to renew its institutional partnership agreement and therefore the existing agreement will terminate in April 2021. Accordingly, Liverpool will stop enrolling new students and will begin a teach-out process that is expected to be completed in April 2021. As a result, during the third quarter of 2018, we recorded an impairment charge of \$10,030 related to fixed assets of this entity that are no longer recoverable based on expected future cash flows. Because Liverpool does not meet the criteria to be classified as held-for-sale or a discontinued operation, its results are reported within continuing operations for all periods presented.

Recently Adopted Accounting Standards

Accounting Standards Update (ASU) No. 2014-09, (ASU 2014-09), Revenue from Contracts with Customers (Topic 606)

On May 28, 2014, the Financial Accounting Standards Board (FASB) issued ASU 2014-09, which, along with amendments issued in 2015 and 2016, supersedes the revenue recognition requirements in ASC 605, “Revenue Recognition” and most industry-specific guidance. The core principle of ASU 2014-09 is that a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. We adopted Topic 606 as of January 1, 2018 using the modified retrospective transition method and elected to apply the standard only to contracts that were not completed as of that date. We recorded a net increase to opening retained earnings of approximately \$1,400 as of January 1, 2018 due to the cumulative impact of adopting Topic 606, with the impact primarily related to the deferral of costs to obtain a contract which were previously expensed as incurred. The impact to revenues as a result of applying Topic 606 was an increase of \$2,577 for the nine months ended September 30, 2018.

In accordance with the requirements under Topic 606, the impact of adoption on our Consolidated Statement of Operations and Consolidated Balance Sheet was as follows:

For the
nine
months
ended
September
30, 2018
As
Reported