WHITMAN EDUCATION GROUP INC
Form 10-Q
February 06, 2002

FORM 10-Q
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE
SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended December 31, 2001

Commission File Number 1-13722

WHITMAN EDUCATION GROUP, INC.

Florida	22-2246554
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)

4400 Biscayne Boulevard, Miami, Florida 33137
(Address of Principal Executive Offices)

(305) 575-6510
(Registrant's Telephone Number, Including Area Code)

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

As of January 23, 2002, there were 13,752,269 shares of common stock outstanding.

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

Whitman Education Group, Inc. and Subsidiaries
Condensed Consolidated Balance Sheets

	December 31, 2001	March 31, 2001
	(Unaudited)	
Assets		
Current assets:		
Cash and cash equivalents......	$ 8,498,252	$ 5,892,779
Accounts receivable, net.......	22,824,419	26,134,128
Inventories....................	1,694,436	1,516,439
Deferred tax assets, net.......	2,965,750	3,742,038
Other current assets...........	1,638,105	1,551,714
Total current assets..........	37,620,962	38,837,098
Property and equipment, net......	10,380,851	11,727,583
Deposits and other assets, net...	2,482,441	2,165,024
Goodwill, net....................	9,306,922	9,306,922
Total assets..................	$ 59,791,176	$ 62,036,627
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable..............	$ 1,733,439	$ 2,356,996
Accrued expenses..............	4,638,269	3,106,146
Current portion of capitalized lease obligations.............	1,807,631	1,859,195
Current portion of capital expenditure note payable......................	1,300,000	541,667

Deferred tuition revenue......	20,824,534	22,500,137
Total current liabilities.....	30,303,873	30,364,141
Capitalized lease obligations....	2,337,564	3,379,826
Capital expenditure note payable.	4,983,334	5,958,333
Line of credit..................	-	1,789,897
Commitments and contingencies		
Stockholders' equity:		
Common stock, no par value, authorized 100,000,000 shares; issued and outstanding 13,709,269 at December 31,2001 and 13,642,472 shares at March 31, 2001............	22,915,048	22,748,613
Additional paid-in capital...	674,173	674,173
Accumulated deficit..........	(1,422,816)	(2,878,356)
Total stockholders' equity...	22,166,405	20,544,430
Total liabilities and stockholders' equity.........	$ 59,791,176	$ 62,036,627

See accompanying notes to financial statements.

Whitman Education Group, Inc. and Subsidiaries
Condensed Consolidated Statements of Operations
(Unaudited)

	For the Three Months Ended December 31,	
	2001	2000
Net revenues...................	$ 24,369,149	$ 20,878,235
Costs and expenses:		
Instructional and educational support....................	14,770,480	13,385,860
Selling and promotional.......	3,630,829	3,429,755
General and administrative....	3,628,924	2,958,630
Total costs and expenses........	22,030,233	19,774,245
Income from operations..........	2,338,916	1,103,990
Other (income) and expenses:		
Interest expense..............	215,070	322,445
Interest income...............	(90,964)	(79,528)

Income before income tax provision	2,214,810	861,073
Income tax provision	885,924	343,051
Net income	$ 1,328,886	$ 518,022
Net income per share:		
Basic	$ .10	$ .04
Diluted	$ .09	$ .04
Weighted average common shares outstanding:		
Basic	13,691,976	13,364,052
Diluted	14,524,031	13,397,760

See accompanying notes to financial statements.

Whitman Education Group, Inc. and Subsidiaries
Condensed Consolidated Statements of Operations
(Unaudited)

	For the Nine Months Ended December 31,	
	2001	2000
Net revenues	$ 66,271,563	$ 58,278,904
Costs and expenses:		
Instructional and educational support	42,546,001	39,263,572
Selling and promotional	10,831,045	10,737,054
General and administrative	10,023,206	8,804,030
Total costs and expenses	63,400,252	58,804,656
Income (loss) from operations	2,871,311	(525,752)
Other (income) and expenses:		
Interest expense	729,057	850,945
Interest income	(283,646)	(239,185)
Income (loss) before income tax provision (benefit) and cumulative effect of change in accounting principle	2,425,900	(1,137,512)
Income tax provision (benefit)	970,360	(453,185)

Income (loss) before cumulative effect of change in accounting principle	1,455,540	(684,327)
Cumulative effect of change in accounting principle, net of tax	-	(563,971)
Net income (loss)	$ 1,455,540	$ (1,248,298)
Basic net income (loss) per share:		
Income (loss) before cumulative effect of change in accounting principle	$ .11	$ (.05)
Cumulative effect of change in accounting principle, net of tax	-	(.04)
Net income (loss) per share	$ .11	$ (.09)
Diluted net income (loss) per share:		
Income (loss) before cumulative effect of change in accounting principle	$ .10	$ (.05)
Cumulative effect of change in accounting principle, net of tax	-	(.04)
Net income (loss) per share	$ .10	$ (.09)
Weighted average common shares outstanding:		
Basic	13,669,833	13,358,568
Diluted	14,150,767	13,358,568

See accompanying notes to financial statements.

Whitman Education Group, Inc. and Subsidiaries
Condensed Consolidated Statements of Cash Flows
(Unaudited)

	For the Nine Months Ended December 31,	
	2001	2000
Cash flows from operating activities:		
Net income (loss)	$ 1,455,540	$ (1,248,298)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	2,868,912	3,037,521

Bad debt expense..................	3,530,641	2,883,296
Deferred tax expense (benefit)....	776,288	(829,166)
Changes in operating assets and liabilities:		
Accounts receivable.............	(220,932)	(1,978,732)
Inventories.....................	(177,997)	(131,400)
Other current assets............	(87,050)	(103,332)
Deposits and other assets.......	(317,417)	83,195
Accounts payable................	(623,557)	675,512
Accrued expenses................	1,532,123	(1,764,494)
Deferred tuition revenue........	(1,675,603)	(429,725)
Net cash provided by operating activities.........................	7,060,948	194,377
Cash flows from investing activity:		
Purchase of property and equipment...	(1,008,413)	(1,472,793)
Net cash used in investing activity..	(1,008,413)	(1,472,793)
Cash flows from financing activities:		
Proceeds from line of credit and long-term debt.....................	17,728,494	16,122,709
Principal payments on line of credit, long-term debt and capital lease obligations.......................	(21,341,991)	(18,279,591)
Purchase of common stock	-	(127,936)
Proceeds from purchases in stock purchase plan and exercise of options...........................	166,435	70,073
Net cash used in financing activities.........................	(3,447,062)	(2,214,745)
Increase (decrease) in cash and cash equivalents.......................	2,605,473	(3,493,161)
Cash and cash equivalents at beginning of period...............	5,892,779	6,056,738
Cash and cash equivalents at end of period............................	$ 8,498,252	$ 2,563,577

Continued on following page.

See accompanying notes to financial statements.

Whitman Education Group, Inc. and Subsidiaries
Condensed Consolidated Statements of Cash Flows - (Continued)
(Unaudited)

For the Nine Months Ended

	December 31, 2001	December 31, 2000
Supplemental disclosures of noncash financing and investing activities:		
Equipment acquired under capital leases............................	$ 513,108	$ 1,236,643
Supplemental disclosures of cash flow information:		
Interest paid........................	$ 729,057	$ 850,944
Income taxes paid...................	$ 5,000	$ 140

See accompanying notes to financial statements.

Whitman Education Group, Inc. and Subsidiaries
Notes to Condensed Consolidated Financial Statements (Unaudited)

1. General

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and, in the opinion of management, include all adjustments, which are of a normal recurring nature, necessary for a fair presentation of financial position and the results of operations and cash flows for the periods presented. However, the financial statements do not include all information and footnotes required for a presentation in accordance with accounting principles generally accepted in the United States of America. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and the notes thereto included or incorporated by reference in our Form 10-K for the fiscal year ended March 31, 2001. The results of operations for the interim periods are not necessarily indicative of the results of operations to be expected for the full year.

The accompanying financial statements include the accounts of Whitman Education Group, Inc., and its wholly-owned subsidiaries, Ultrasound Technical

Services, Inc. ("Ultrasound Diagnostic Schools"), Sanford Brown College, Inc. ("Sanford-Brown College") and CTU Corporation ("Colorado Technical University"). All intercompany accounts and transactions have been eliminated. Hereafter, references to "Whitman" shall include collectively Whitman Education Group, Inc. and its operating subsidiaries, Ultrasound Diagnostic Schools, Sanford-Brown College and Colorado Technical University.

Whitman experiences seasonality in its quarterly results of operations as a result of changes in the level of student enrollment. New enrollment in Whitman's schools tends to be lower in the first and second fiscal quarters covering the summer months which are traditionally associated with recess from school. Costs are generally not significantly affected by the seasonal factors on a quarterly basis. Accordingly, quarterly variations in net revenues will result in fluctuations in income (loss) from operations on a quarterly basis.

2. Reclassification

Certain prior year amounts have been reclassified to conform to the fiscal 2002 presentation. These changes had no effect on previously reported net income (loss).

Whitman Education Group, Inc. and Subsidiaries
Notes to Condensed Consolidated Financial Statements (Unaudited) - (Continued)

3. Earnings Per Share

The following table sets forth the computation of basic and diluted earnings per share:

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2001	2000	2001	2000
Numerator:				
Income (loss) before cumulative effect of change in accounting principle.........	$ 1,328,886	$ 518,022	$ 1,455,540	$ (684,327)
Cumulative effect of change in accounting principle, net of tax..............	-	-	-	(563,971)
Net income (loss)...	$ 1,328,886	$ 518,022	$ 1,455,540	$ (1,248,298)
Denominator:				
Denominator for basic earnings per share- weighted average				

shares............	13,691,976	13,364,052	13,669,833	13,358,568
Effect of dilutive securities: Employee stock options...........	832,055	33,708	480,934	-
Dilutive potential common shares.....	832,055	33,708	480,934	-
Denominator for diluted earnings per share- adjusted weighted - average shares and assumed conversions.......	14,524,031	13,397,760	14,150,767	13,358,568
Basic income (loss) before effect of change in accounting principle.........	$ .10	$ .04	$ .11	$ (.05)
Cumulative effect of change in accounting principle, net of tax...............	-	-	-	(.04)
Basic net income (loss) per share...	$ .10	$ .04	$ .11	$ (.09)
Diluted income (loss) before effect of change in accounting principle.........	$ .09	$ .04	$ .10	$ (.05)
Cumulative effect of change in accounting principle, net of tax...............	-	-	-	(.04)
Diluted net income (loss) per share...	$ .09	$ .04	$ .10	$ (.09)

4. New Accounting Pronouncements

In April 2001, Whitman adopted Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS 133"). SFAS 133 establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts and for hedging activities. It requires that an entity recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value. Because Whitman does not use derivatives, the adoption of SFAS 133 did not have any effect on Whitman's results of operations or financial position.

In August 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS 144"), which addresses financial accounting and reporting for the impairment or disposal of long-lived assets. SFAS 144 is effective for fiscal years beginning after December 15, 2001, and interim periods within those fiscal years, with early adoption encouraged. The provisions of SFAS 144 generally are to be applied prospectively. Whitman does not expect the adoption of SFAS 144 to have a material effect on its results of operations or financial position.

5. Goodwill

In June 2001, the Financial Accounting Standards Board issued Statements of Financial Accounting Standards No. 141, "Business Combinations", and No. 142, "Goodwill and Other Intangible Assets" ("SFAS 141 and 142"), effective for fiscal years beginning after December 15, 2001. Under the new rules, goodwill (and intangible assets deemed to have indefinite lives) will no longer be amortized but will be subject to annual impairment tests or more frequently if impairment indicators arise. Other intangible assets will continue to be amortized over their useful lives.

Whitman has elected to adopt the provisions of SFAS 141 and 142 effective April 1, 2001. Application of the nonamortization provision of SFAS 142 resulted in an increase in net income of $43,000 and $129,000, net of taxes, for the three and nine months ended December 31, 2001, respectively. Pro forma net income (loss) and net income (loss) per basic and diluted share amounts, for the three and nine months ended December 31, 2000, had SFAS 141 and 142 been applied retroactively, would have been approximately $561,000 and $.04 and $(1,119,000) and $(.08), respectively.

During September 2001, the Company completed its transitional impairment test of goodwill in accordance with SFAS 142. As a result of this test, it was determined that there was no impairment of goodwill.

6. Income (Loss) Per Share

Basic income (loss) before cumulative effect of change in accounting principle, cumulative effect of change in accounting principle, net of tax and net income (loss) per common share is computed using the weighted average number of common shares outstanding during the period. Diluted income (loss) before cumulative effect of change in accounting principle, cumulative effect of change in accounting principle, net of tax and net income (loss) per share is computed using the weighted average number of common and common equivalent shares outstanding during the period.

Notes to Condensed Consolidated Financial Statements (Unaudited) - (Continued)

7. Comprehensive Income (Loss)

Whitman complies with the provisions of Statement of Financial Accounting Standards No. 130, "Reporting Comprehensive Income" ("SFAS 130"). SFAS 130 establishes rules for the reporting and display of comprehensive income and its components. SFAS 130 requires unrealized gains or losses on Whitman's available-for-sale securities to be included in "other comprehensive income."

For the three months ended December 31, 2001 and December 31, 2000, comprehensive income were $1,328,886 and $518,022, respectively. For the nine months ended December 31, 2001 and December 31, 2000, comprehensive income was $1,455,540 and comprehensive loss was $1,248,298, respectively.

8. Contingencies

On May 4, 2000, Whitman, in conjunction with its insurance carriers, reached an agreement in principle to settle the class action lawsuit, Cullen, et. al. v. Whitman Education Group, Inc., et. al. The settlement agreement covers students who attended Whitman's Ultrasound Diagnostic Schools any time from August 1, 1994 to August 1, 1998 in either the general ultrasound program or the non-invasive cardiovascular technology program. The settlement agreement provided for payment of $5,970,000 in cash and approximately $1,346,000 in loan forgiveness of delinquent obligations owed by students to Whitman's Ultrasound Diagnostic Schools. The actual cash payment of approximately $5,970,000 was funded by Whitman contributing $1,170,000 and Whitman's insurance carriers contributing $4,800,000. Whitman also contributed $1,346,000 in debt forgiveness, all of which was fully reserved or previously written-off at March 31, 2000. Whitman also provided for a reserve for potential claims from members of the class action lawsuit who elected not to participate in the settlement. This reserve was estimated based on historical student settlement experience. As a result of the cash settlement payment and estimated reserves, Whitman recorded a one-time, after-tax charge to earnings of approximately $930,000, or $.07 per share in the fiscal quarter ended March 31, 2000. Although management denied the allegations of the lawsuit, and believed the key allegations to be without merit, Whitman entered into the settlement to resolve litigation in a satisfactory business manner, to avoid disruption of Whitman's business, and to allow Whitman to pursue its mission of providing quality education to its students.

9. Segment and Related Information

Whitman complies with the provisions of Statement of Financial Accounting Standards No. 131, "Disclosures About Segments of an Enterprise and Related Information" ("SFAS 131"). SFAS 131 establishes standards for the way that public business enterprises report information about operating segments in annual financial statements and requires that those enterprises report selected information about operating segments in interim financial reports. It also establishes standards for related disclosures about products and services, geographic areas and major customers.

Whitman Education Group, Inc. and Subsidiaries
Notes to Condensed Consolidated Financial Statements (Unaudited) - (Continued)

9. Segment and Related Information - (Continued)

Whitman is organized into two reportable segments, the University Degree Division and the Associate Degree Division. The University Degree Division primarily offers bachelor, master and doctorate degrees through Colorado Technical University. The Associate Degree Division offers associate degrees and diplomas or certificates through Sanford-Brown College and Ultrasound Diagnostic Schools.

Whitman's revenues are not materially dependent on a single customer or small group of customers.

Summarized financial information concerning Whitman's reportable segments is shown in the following table:

	For the Three Months Ended December 31,		For the Nine Months Ended December 31,	
	2001	2000	2001	2000
Net revenues:				
Associate Degree Division.......	$ 18,961,395	$15,380,648	$ 51,650,238	$44,327,126
University Degree Division.......	5,407,754	5,497,587	14,621,325	13,951,778
Total...........	$ 24,369,149	$20,878,235	$ 66,271,563	$58,278,904
Income (loss) before income tax provision (benefit) and cumulative effect of change in accounting principle:				
Associate Degree Division......	$ 2,324,627	$ 246,384	$ 3,851,871	$ (859,446)
University Degree Division	418,205	1,140,178	324,834	1,361,368
Other...........	(528,022)	(525,489)	(1,750,805)	(1,639,434)
Total...........	$ 2,214,810	$ 861,073	$ 2,425,900	$(1,137,512)

	December 31, 2001	March 31, 2001
Total assets:		
Associate Degree Division......	$ 41,366,208	$48,327,713
University Degree Division......	8,390,435	11,895,647
Other...........	10,034,533	1,813,267

Total..........	$ 59,791,176	$62,036,627

Item 2 Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis should be read in conjunction with the consolidated financial statements of Whitman, the related notes to the consolidated financial statements and Management's Discussion and Analysis of Financial Condition and Results of Operations included in Whitman's Form 10-K for the year ended March 31, 2001 and the condensed consolidated financial statements and the related notes to the condensed consolidated financial statements included in Item 1 of this Quarterly Report on Form 10-Q. Except for the historical matters contained herein, statements made in this report are forward-looking and are made pursuant to the safe harbor provisions of the Securities Litigation Reform Act of 1995. Such statements may include, but are not limited to, Whitman's financing needs and plans for future resources, working capital, operations and share repurchases, if any. Investors are cautioned that forward-looking statements involve risks and uncertainties, including, but not limited to, regulatory, licensing and accreditation risks inherent in operating proprietary postsecondary educational institutions, (including risks relating to the continued eligibility of our schools to receive funds under Title IV Programs), risks relating to unanticipated attrition or reductions in student enrollment and risks relating to the availability of financing which may cause our actual results, performance or achievements to differ materially from the results expressed in the forward-looking statements made in this report. Other factors that may affect our future results include certain economic, competitive, governmental and other factors discussed in our filings with the Securities and Exchange Commission. We assume no responsibility to update forward-looking statements made herein or otherwise.

Results of Operations

The following table sets forth the percentage relationship of certain statement of operations data to net revenues for the periods indicated:

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2001	2000	2001	2000
Net revenues..........	100.0%	100.0%	100.0%	100.0%
Costs and expenses:				
Instructional and educational support.	60.6	64.1	64.2	67.4
Selling and promotional.........	14.9	16.4	16.4	18.4
General and administrative......	14.9	14.2	15.1	15.1
Total costs and				

expenses...........	90.4	94.7	95.7	100.9
Income (loss) from operations..........	9.6	5.3	4.3	(0.9)
Other (income) and expenses:				
Interest expense....	0.9	1.6	1.1	1.5
Interest income.....	(0.4)	(0.4)	(0.5)	(0.4)
Income (loss) before income tax provision (benefit) and cumulative effect of change in accounting principle...........	9.1	4.1	3.7	(2.0)
Income tax provision (benefit)...........	3.6	1.6	1.5	(0.8)
Income (loss) before cumulative effect of change in accounting principle...........	5.5	2.5	2.2	(1.2)
Cumulative effect of change in accounting principle, net of tax.................	-	-	-	(0.9)
Net income (loss).....	5.5%	2.5%	2.2%	(2.1)%

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Results of Operations - (Continued)

Three months ended December 31, 2001 compared to the three months ended December 31, 2000

Net revenues increased by $3.5 million or 16.7% to $24.4 million for the three months ended December 31, 2001 from $20.9 million for the three months ended December 31, 2000. This increase was primarily due to a 7.9% increase in average student enrollment and an increase in tuition rates.

The Associate Degree Division experienced a 14.7% increase in average student enrollment and the University Degree Division experienced a 4.0% decrease in average student enrollment. The increase in student enrollment in the Associate Degree Division was primarily due to increased enrollment in the medical assisting and health information specialist programs offered by the Ultrasound Diagnostic Schools and the information technology and allied health programs offered at Sanford-Brown College. The increase in student enrollment in the Associate Degree Division was due to our improved marketing and admissions efforts which permitted us to increase the rate at which we converted leads to new student starts. The decrease in average student enrollment in the University Degree Division was primarily due to a decline in student enrollment in the master's program.

Instructional and educational support expenses increased by $1.4 million, or 10.3% to $14.8 million for the three months ended December 31, 2001 from

$13.4 million for the three months ended December 31, 2000. As a percentage of net revenues, instructional and educational support expenses decreased to 60.6% for the three months ended December 31, 2001 as compared to 64.1% for the three months ended December 31, 2000. The increase in instructional and educational support expenses was primarily due to an increase in payroll expenses and related benefits for faculty, academic administrators and student support personnel to support the increase in enrollment. The decrease in instructional and educational support expenses as a percentage of net revenues was due to our ability to better leverage our instructional and educational support expenses to support an increased revenue base.

Selling and promotional expenses increased by $0.2 million, or 5.9%, to $3.6 million for the three months ended December 31, 2001 from $3.4 million for the three months ended December 31, 2000. As a percentage of net revenues, selling and promotional expenses decreased to 14.9% for the three months ended December 31, 2001 as compared to 16.4% for the three months ended December 31, 2000. The decrease in selling and promotional expenses as a percentage of net revenues was due to our improved marketing and admissions efforts that allowed us to maintain such expenses relatively unchanged while supporting a growth in revenues.

General and administrative expenses increased by $0.7 million, or 22.7%, to $3.6 million for the three months ended December 31, 2001 from $3.0 million for the three months ended December 31, 2000. As a percentage of net revenues, general and administrative expenses increased to 14.9% for the three months ended December 31, 2001 as compared to 14.2% for the three months ended December 31, 2000. The increase in general and administrative expenses was primarily due to an increase in administrative payroll expenses and related benefits and an increase in bad debt expense in the Associate Degree Division. For the three months ended December 31, 2001, bad debt expense as a percentage of net revenues increased to 4.9% from 4.7% for the three months ended December 31, 2000. The increase in bad debt expense was primarily due to the increase in net revenues for the three months ended December 31, 2001 and to the negative impact of the October 2000 required adoption of the Department of Education's new methodology for calculating the amount of previously disbursed federal student financial aid that we must return to the federal government with respect to students who have since withdrawn from our schools. This new regulation increases the student's obligation to the school from which they have withdrawn and decreases the amount of student federal financial aid received by the school on behalf of the students who withdrew.

Results of Operations - (Continued)

We reported income from operations of $2.3 million for the three months ended December 31, 2001 as compared to income from operations of $1.1 million for the three months ended December 31, 2000. This increase in profitability was primarily due to an increase in income from operations of $2.0 million in the Associate Degree Division which was partially offset by a decrease in income from operations of $0.7 million in the University Degree Division.

We reported net income of $1.3 million for the three months ended December 31, 2001 and a net income of $0.5 million for the three months ended December 31, 2000. The increase in net income was primarily due to an increase in profitability in the Associate Degree Division.

Nine months ended December 31, 2001 compared to the nine months ended December 31, 2000

Net revenues increased by $8.0 million, or 13.7%, to $66.3 million for the nine months ended December 31, 2001 from $58.3 million for the nine months ended December 31, 2000. This increase was primarily due to a 5.5% increase in average student enrollment and an increase in tuition rates.

The Associate Degree Division experienced a 7.3% increase in average student enrollment and the University Degree Division experienced a 1.9% increase in average student enrollment. The increase in student enrollment in the Associate Degree Division was primarily due to increased enrollment in the medical assisting program and the health information specialist program offered by the Ultrasound Diagnostic Schools and the information technology and allied health programs offered at Sanford-Brown College. The increase in student enrollment in the Associate Degree Division was due to our improved marketing and admissions efforts which permitted us to increase the rate at which we converted leads to new student starts. The increase in student enrollment in the University Degree Division was primarily due to increased enrollment at Colorado Technical University's Colorado Springs campus.

Instructional and educational support expenses increased by $3.3 million, or 8.4%, to $42.5 million for the nine months ended December 31, 2001 from $39.3 million for the nine months ended December 31, 2000. As a percentage of net revenues, instructional and educational support expenses decreased to 64.2% for the nine months ended December 31, 2001 as compared to 67.4% for the nine months ended December 31, 2000. The increase in instructional and educational support expenses was primarily due to an increase in payroll expenses and related benefits for faculty, academic administrators and student support personnel to support the increase in enrollment. The decrease in instructional and educational support expenses as a percentage of net revenues was due to our ability to better leverage our instructional and educational support expenses to support an increased revenue base.

Selling and promotional expenses increased by $0.1 million, or 0.9%, to $10.8 million for the nine months ended December 31, 2001 from $10.7 million for the nine months ended December 31, 2000. As a percentage of net revenues, selling and promotional expenses decreased to 16.4% for the nine months ended December 31, 2001 as compared to 18.4% for the nine months ended December 31, 2000. The decrease in selling and promotional expenses as a percentage of net revenues was due to our ability to maintain such expenses relatively unchanged while supporting a growth in revenues.

General and administrative expenses increased by $1.2 million, or 13.9%, to $10.0 million for the nine months ended December 31, 2001 from $8.8 million for the nine months ended December 31, 2000. As a percentage of net revenues, general and administrative expenses remained consistent at 15.1% for the nine months ended December 31, 2001 and 2000. The increase in general and administrative expenses was primarily due to an increase in administrative payroll expenses and related benefits and an increase in bad debt expense in the Associate Degree Division. For the nine months ended December 31, 2001, bad debt expense as a percentage of net revenues increased to 5.3% from 4.9% for the nine months ended December 31, 2000. The increase in bad debt expense was primarily

due to the negative impact of the October 2000 required adoption of the

Department of Education's new methodology for calculating the amount of previously disbursed federal student financial aid that we must return to the federal government with respect to students who have since withdrawn from our schools. This new regulation increases the student's obligation to the school from which they have withdrawn and decreases the amount of student federal financial aid received by the school on behalf of the students who withdrew.

We reported income from operations of $2.9 million for the nine months ended December 31, 2001 as compared to a loss from operations of $0.5 million for the nine months ended December 31, 2000. This increase in profitability was primarily due to an increase in income from operations of $4.7 million in the Associate Degree Division which was partially offset by a decrease in income from operations in the University Degree Division of $1.2 million.

We reported net income of $1.5 million for the nine months ended December 31, 2001 and a net loss of $1.2 million for the nine months ended December 31, 2000. The increase in net income was primarily due to an increase in profitability in the Associate Degree Division and the implementation of SEC Staff Accounting Bulletin No. 101 effective April 1, 2000, which resulted in a one-time charge after taxes of $0.6 million for the nine months ended December 31, 2000.

Seasonality

We experience seasonality in our quarterly results of operations as a result of changes in the level of student enrollment. New enrollment in our schools tends to be lower in the first and second fiscal quarters covering the summer months which are traditionally associated with recess from school. Costs are generally not significantly affected by the seasonal factors on a quarterly basis. Accordingly, quarterly variations in net revenues will result in fluctuations in income from operations on a quarterly basis.

Liquidity and Capital Resources

Cash and cash equivalents at December 31, 2001 and March 31, 2001 were $8.5 million and $5.9 million, respectively. The increase in cash and cash equivalents was primarily due to net income of $1.5 million generated for the nine months ended December 31, 2001. Our working capital totaled $7.3 million at December 31, 2001 and $8.5 million at March 31, 2001.

Net cash of $7.0 million was provided by operating activities for the nine months ended December 31, 2001 compared to net cash of $0.2 million provided by operating activities for the nine months ended December 31, 2000. The increase of $6.8 million was primarily due to an increase in net profits of $2.7 million, a net increase in accounts payable and accrued expenses of $2.0 million, and a decrease in net deferred income taxes of $1.6 million.

Net cash of $1.0 million was used in an investing activity for the nine months ended December 31, 2001 compared to net cash of $1.5 million used in an investing activity for the nine months ended December 31, 2000. The decrease of $0.5 million was primarily due to a decrease in cash used for capital expenditures.

Net cash of $3.4 million was used in financing activities for the nine months ended December 31, 2001, compared to net cash of $2.2 million used in financing activities for the nine months ended December 31, 2000. The increase in cash used in financing activities was due primarily to an increase of $1.5 million in net payments on long-term debt and capital lease obligations.

Results of Operations - (Continued)

Liquidity and Capital Resources - (Continued)

We have a $2.0 million line of credit which was scheduled to expire on June 30, 2002. In November, 2001, we extended the expiration date on the line of credit to October 31, 2002. At December 31, 2001, we had no outstanding balance under this facility and letters of credit outstanding of $0.5 million which reduced the amount available for borrowing.

On November 5, 1999 our Board of Directors authorized the repurchase of up to $1.0 million of our common stock. Any repurchases may be made from time to time in the open market or through privately negotiated transactions. During the nine months ended December 31, 2001, we did not repurchase any shares of our common stock. Since the inception of the repurchase program, we have repurchased 285,100 shares of our common stock for approximately $498,000. We anticipate that any further repurchases of shares will be funded through cash from operations.

Our primary source of operating liquidity is the cash received from payments of tuition and fees. Most students attending our schools receive some form of financial aid under Title IV Programs. We receive approximately 71% of our funding from the Title IV Programs. Disbursements under each program are subject to disallowance and repayment by the schools.

We believe that with our working capital, our cash flow from operations, our line of credit and our expected increased financings under capital lease obligations to fund capital expenditures, we will have adequate resources to meet our anticipated operating requirements for the foreseeable future.

New Accounting Pronouncements

In June 2001, the Financial Accounting Standards Board issued Statements of Financial Accounting Standards No. 141, "Business Combinations," and No. 142, "Goodwill and Other Intangible Assets" ("SFAS 141 and 142"), effective for fiscal years beginning after December 15, 2001. Under the new rules, goodwill (and intangible assets deemed to have indefinite lives) will no longer be amortized but will be subject to annual impairment tests or more frequently if impairment indicators arise. Other intangible assets will continue to be amortized over their useful lives.

Whitman has elected to adopt the provisions of SFAS 141 and 142 effective April 1, 2001. Application of the nonamortization provision of SFAS 142 resulted in an increase in net income of $43,000 and $129,000, net of taxes, for the three and nine months ended December 31, 2001, respectively. Pro forma net income (loss) and net income (loss) per basic and diluted share amounts, for the three and nine months ended December 31, 2000, had SFAS 141 and 142 been applied retroactively, would have been approximately $561,000 and $.04 and $(1,119,000) and $(.08), respectively.

During September 2001, the Company completed its transitional impairment test of goodwill in accordance with SFAS 142. As a result of this test, it was determined that there was no impairment of goodwill.

PART II - OTHER INFORMATION

Item 5. Exhibits and Reports on Form 8-K

(a) Reports on Form 8-K

No reports on Form 8-K were filed by Whitman during the quarter ended December 31, 2001.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

WHITMAN EDUCATION GROUP, INC.
(Registrant)

By: /s/ Fernando L. Fernandez
Fernando L. Fernandez
Vice President - Finance,
Chief Financial Officer,
Treasurer and Secretary

Date: February 6, 2002