

LAUREATE EDUCATION, INC.

Form 10-Q

May 06, 2005

**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 and Exchange Act of 1934**

**for the quarter ended March 31, 2005**

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 0-22844**

### 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.)

**1001 Fleet Street, Baltimore, Maryland**

(Address of principal executive offices)

**21202**

(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 is an accelerated filer (as defined in Rule 12b-2 of the Act). Yes . No .

The registrant had 49,398,959 shares of Common Stock outstanding as of April 29, 2005.

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**SIGNATURE**

## LAUREATE EDUCATION, INC. AND SUBSIDIARIES

## Consolidated Balance Sheets

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

|   | March 31,<br>2005<br>(Unaudited) | December 31,<br>2004 |
|---|----------------------------------|----------------------|
| <b>Assets</b>   |                                  |                      |
| Current assets:   |                                  |                      |
| Cash and cash equivalents   | \$ 104,812                       | \$ 105,629           |
| Available-for-sale securities   | 11,816                           | 4,515                |
| Receivables:  |                                  |                      |
| Accounts receivable   | 114,252                          | 128,523              |
| Notes receivable  | 100,867                          | 85,450               |
| Other receivables   | 4,328                            | 3,507                |
|   | 219,447                          | 217,480              |
| Allowance for doubtful accounts   | (23,233)                         | (25,214)             |
|   | 196,214                          | 192,266              |
| Inventory   | 4,855                            | 4,647                |
| Deferred income taxes   | 6,521                            | 5,079                |
| Income tax receivable   | 18,269                           | 33,523               |
| Prepaid expenses and other current assets   | 20,889                           | 15,238               |
| Current assets of discontinued operations   |                                  | 20,000               |
| Total current assets  | 363,376                          | 380,897              |
| Other notes receivable, less current portion, net of allowance of \$5,478 and \$5,846 at March 31, 2005 and December 31, 2004, respectively | 71,898                           | 50,384               |
| Property and equipment:   |                                  |                      |
| Land  | 90,714                           | 95,153               |
| Buildings   | 259,091                          | 266,524              |
| Construction in-progress  | 7,575                            | 3,154                |
| Furniture, computer equipment and software  | 163,437                          | 161,153              |
| Leasehold improvements  | 59,813                           | 56,788               |
|   | 580,630                          | 582,772              |
| Accumulated depreciation and amortization   | (102,900)                        | (97,180)             |
|   | 477,730                          | 485,592              |
| Intangible assets:  |                                  |                      |
| Goodwill  | 360,921                          | 364,973              |
| Tradenames and accreditations   | 174,776                          | 174,694              |
| Other intangible assets, net of accumulated amortization of \$10,484 and \$9,358 at March 31, 2005 and December 31, 2004, respectively      | 9,796                            | 11,447               |
|   | 545,493                          | 551,114              |
| Deferred income taxes   | 3,280                            | 3,335                |
| Deferred costs, net of accumulated amortization of \$11,112 and \$10,025 at March 31, 2005 and December 31, 2004, respectively              | 16,460                           | 15,976               |
| Other assets  | 23,255                           | 16,371               |
| Assets of discontinued operations   |                                  | 27,041               |
| Total assets  | \$ 1,501,492                     | \$ 1,530,710         |

*See accompanying notes to financial statements.*

## LAUREATE EDUCATION, INC. AND SUBSIDIARIES

## Consolidated Balance Sheets (continued)

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

|   | March 31,<br>2005<br>(Unaudited) | December 31,<br>2004 |
|---|----------------------------------|----------------------|
| <b>Liabilities and stockholders equity</b>  |                                  |                      |
| Current liabilities:  |                                  |                      |
| Accounts payable  | \$ 23,862                        | \$ 20,824            |
| Accrued expenses  | 97,971                           | 108,542              |
| Income tax payable  | 14,369                           | 15,423               |
| Current portion of long-term debt   | 25,292                           | 47,010               |
| Current portion of due to shareholders of acquired companies  | 5,946                            | 26,861               |
| Deferred revenue  | 260,876                          | 225,747              |
| Deferred income taxes   | 497                              | 1,205                |
| Other current liabilities   | 9,526                            | 10,482               |
| Total current liabilities   | 438,339                          | 456,094              |
| Long-term debt, less current portion  | 81,208                           | 86,605               |
| Due to shareholders of acquired companies, less current portion   | 28,182                           | 29,402               |
| Deferred income taxes   | 21,979                           | 22,446               |
| Other long-term liabilities   | 19,960                           | 19,990               |
| Total liabilities   | 589,668                          | 614,537              |
| Commitments and contingent liabilities  |                                  |                      |
| Minority interest   | 37,971                           | 37,538               |
| Stockholders equity:  |                                  |                      |
| Preferred stock, par value \$.01 per share authorized 10,000 shares, no shares issued and outstanding as of March 31, 2005 and December 31, 2004                              |                                  |                      |
| Common stock, par value \$.01 per share authorized 90,000 shares, issued and outstanding shares of 49,318 and 48,813 as of March 31, 2005 and December 31, 2004, respectively | 493                              | 488                  |
| Additional paid-in capital  | 482,056                          | 474,928              |
| Retained earnings   | 360,585                          | 355,989              |
| Accumulated other comprehensive income  | 30,719                           | 47,230               |
| Total stockholders equity   | 873,853                          | 878,635              |
| Total liabilities and stockholders equity   | \$ 1,501,492                     | \$ 1,530,710         |

See accompanying notes to financial statements.

## LAUREATE EDUCATION, INC. AND SUBSIDIARIES

## Consolidated Statements of Operations

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

|  | Three months ended March 31, |            |
|--|------------------------------|------------|
|  | 2005                         | 2004       |
|  | (Unaudited)                  |            |
| <b>Revenues</b>  | \$ 184,114                   | \$ 132,156 |
| <b>Costs and expenses</b>  |                              |            |
| Direct costs   | 171,884                      | 122,563    |
| General and administrative expenses  | 6,214                        | 5,289      |
| Non-cash stock compensation expense (1)  | 780                          | 712        |
| Total costs and expenses   | 178,878                      | 128,564    |
| <b>Operating income</b>  | 5,236                        | 3,592      |
| <b>Other income (expense)</b>  |                              |            |
| Interest and other income  | 2,416                        | 3,302      |
| Interest expense   | (2,374)                      | (1,558)    |
| Foreign currency exchange gain   | 249                          | 360        |
|  | 291                          | 2,104      |
| Income from continuing operations before income taxes, minority interest, and equity in net loss of affiliates       | 5,527                        | 5,696      |
| Income tax expense   | (691)                        | (707)      |
| Minority interest in income of consolidated subsidiaries, net of tax   | (892)                        | (2,474)    |
| Equity in net loss of affiliates, net of tax   | (90)                         | (8)        |
| Income from continuing operations  | 3,854                        | 2,507      |
| Income (loss) from discontinued operations, net of income tax benefit (expense) of \$285 in 2005 and \$(186) in 2004 | 742                          | (2,891)    |
| <b>Net income (loss)</b>   | \$ 4,596                     | \$ (384)   |
| Earnings (loss) per common share, basic:   |                              |            |
| Income from continuing operations  | \$ 0.08                      | \$ 0.06    |
| Net income (loss)  | \$ 0.09                      | \$ (0.01)  |
| Earnings (loss) per common share, diluted:   |                              |            |
| Income from continuing operations  | \$ 0.07                      | \$ 0.05    |
| Net income (loss)  | \$ 0.09                      | \$ (0.01)  |
| (1) Composition of non-cash stock compensation expense:  |                              |            |
| Direct costs   | \$ 297                       | \$ 695     |
| General and administrative expenses  | 483                          | 17         |
| Total  | \$ 780                       | \$ 712     |

See accompanying notes to financial statements.





## LAUREATE EDUCATION, INC. AND SUBSIDIARIES

## Consolidated Statements of Cash Flows

*(Dollar amounts in thousands)*

|  | Three months ended March 31, |            |
|--|------------------------------|------------|
|  | 2005                         | 2004       |
|  | (Unaudited)                  |            |
| <b>Operating activities</b>  |                              |            |
| Net income (loss)  | \$ 4,596                     | \$ (384)   |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities: |                              |            |
| Depreciation and amortization of fixed assets  | 8,974                        | 7,038      |
| Amortization   | 2,644                        | 1,488      |
| Non-cash stock compensation expense  | 780                          | 712        |
| Minority interest in consolidated subsidiaries   | 892                          | 2,474      |
| Equity in net loss of affiliates   | 90                           | 8          |
| Deferred income taxes  | (1,570)                      | (660)      |
| Other non-cash items   | (1,126)                      | (41)       |
| Changes in operating assets and liabilities:   |                              |            |
| Receivables  | (21,854)                     | (48,720)   |
| Income tax receivable  | 15,676                       |            |
| Inventory, prepaid expenses and other current assets                                     | (938)                        | (3,768)    |
| Accounts payable and accrued expenses  | (5,806)                      | 7,370      |
| Income tax payable   | (977)                        | 7          |
| Deferred revenue and other current liabilities   | 43,738                       | 55,775     |
| Net cash provided by operating activities  | 45,119                       | 21,299     |
| <b>Investing activities</b>  |                              |            |
| Purchase of available-for-sale securities  | (8,451)                      | (8)        |
| Proceeds from sale or maturity of available-for-sale securities                          | 897                          | 16,446     |
| Purchase of property and equipment, net  | (14,358)                     | (12,631)   |
| Cash loaned in exchange for notes receivable   | (2,752)                      |            |
| Proceeds from sale of investments  |                              | 2,175      |
| Proceeds from sale of discontinued operations, net of cash sold                          | 12,654                       |            |
| Cash paid for acquisitions, net of cash acquired   | (5,957)                      | (4,784)    |
| Payment of contingent consideration for prior period acquisitions                        | (20,312)                     | (1,349)    |
| Expenditures for deferred costs  | (1,714)                      | (1,212)    |
| Increase in other assets   | (808)                        | (143)      |
| Net cash used in investing activities  | (40,801)                     | (1,506)    |
| <b>Financing activities</b>  |                              |            |
| Proceeds from exercise of options  | 5,542                        | 3,396      |
| Proceeds from issuance of common stock   |                              | 151        |
| Proceeds from issuance of long-term debt   | 28,580                       | 20,487     |
| Payments on long-term debt   | (47,995)                     | (22,606)   |
| Change in long-term liabilities  | (944)                        | 1,647      |
| Net cash (used in) provided by financing activities                                      | (14,817)                     | 3,075      |
| Effects of exchange rate changes on cash   | (950)                        | 1,211      |
| Net change in cash and cash equivalents  | (11,449)                     | 24,079     |
| Cash and cash equivalents at beginning of period   | 116,261                      | 98,388     |
| Cash and cash equivalents at end of period   | \$ 104,812                   | \$ 122,467 |
| Cash and cash equivalents classified as:   |                              |            |
| Continuing operations  | \$ 104,812                   | \$ 114,294 |

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|  |    |         |    |         |
|--|----|---------|----|---------|
| Discontinued operations                    |    |         |    | 8,173   |
| Cash and cash equivalents at end of period | \$ | 104,812 | \$ | 122,467 |

*See accompanying notes to 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**

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, 2004, included in the Company's Annual Report on Form 10-K. Operating results for the three-month period ended March 31, 2005 are not necessarily indicative of the results that may be expected for the year ending December 31, 2005. The traditional semester programs in the education industry, with a summer break, result in significant seasonality in the operating results of Laureate Education, Inc. and subsidiaries (the Company). The consolidated balance sheet at December 31, 2004 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. Certain amounts previously reported for 2004 have been reclassified to conform to the 2005 presentation.

The Company is focused exclusively on providing a superior higher education experience to over 168,000 students through the leading global network of accredited 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 nine and seven separately accredited higher education institutions, respectively. The Latin America segment has locations in Mexico, Chile, Peru, Ecuador, Panama, and Costa Rica. The Europe segment has locations in Spain, Switzerland, and France. 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).

**Note 2 Significant Accounting Policies**

*Stock Based Compensation*

The Company records compensation expense for all employee and director stock-based compensation plans using the intrinsic value method and provides pro forma disclosures of net income (loss) and net earnings (loss) per common share as if the fair value method had been applied in measuring stock compensation expense. Under the intrinsic value method, stock compensation expense is defined as the difference between the amount payable upon exercise of an option and the quoted market value of the underlying common stock on the date of grant or measurement date, or in the case of issuances of restricted stock, the quoted market value of unrestricted shares of common stock on the date of grant. Any resulting compensation expense is recognized ratably over the vesting period, or over the period that the restrictions lapse.

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The Company records compensation expense for all stock options granted to non-employees who are not directors in an amount equal to their estimated fair value at the earlier of the performance commitment date or the date at which performance is complete, determined using the Black-Scholes option pricing model. The compensation expense is recognized ratably over the vesting period.

For purposes of pro forma disclosures, the estimated fair value of the options is amortized to expense over the options' vesting periods.

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The Company's pro forma information is as follows for the three months ended:

|  | March 31, |            |
|--|-----------|------------|
|  | 2005      | 2004       |
| Net income (loss), as reported   | \$ 4,596  | \$ (384)   |
| Stock-based employee compensation expense included in net income (loss) as reported, net of tax    | 468       | 427        |
| Stock-based employee compensation expense as if the fair value method had been applied, net of tax | (1,443)   | (1,333)    |
| Pro forma net income (loss)  | \$ 3,621  | \$ (1,290) |
| Earnings (loss) per share:   |           |            |
| Basic - as reported  | \$ 0.09   | \$ (0.01)  |
| Basic - pro forma  | \$ 0.07   | \$ (0.03)  |
| Diluted - as reported  | \$ 0.09   | \$ (0.01)  |
| Diluted - pro forma  | \$ 0.06   | \$ (0.03)  |

*Impact of Recently Issued Accounting Standards*

In December 2004, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards ( SFAS ) No. 123 (revised 2004), Share-Based Payment. SFAS 123R requires all share-based payments to employees, including grants of employee stock options, to be recognized in the income statement based on their fair values. As permitted by SFAS 123, the Company currently accounts for share-based payments to employees using Accounting Principles Board Opinion 25, which generally recognizes no compensation expense for employee stock options with exercise prices at the date of grant equal to or greater than the quoted market value of the underlying stock. The adoption of the fair value method under SFAS 123R could have a significant impact on the results of operations. SFAS 123R also requires the benefits of tax deductions in excess of recognized compensation expense to be reported as a cash flow from financing activities rather than a cash flow from operating activities. This requirement will reduce net cash flow from operations and increase net cash flow from financing activities in the periods after adoption. The effective date is the first annual reporting period beginning after June 15, 2005. The Company is currently evaluating pricing models and the transition provisions of this standard and will begin expensing stock options in the first quarter of 2006.

**Note 3 - Discontinued Operations**

During the first quarter of 2005, the Company closed the sale of its Wall Street Institute ( WSI ) business. During 2004, the Company terminated its program in India and sold its remaining K-12 educational services businesses. The operations and cash flows of the business components comprising WSI, India, and K-12 educational services businesses were eliminated from ongoing operations as a result of the sale or abandonment and the Company will not have any significant continuing involvement in the operations after the disposal transactions. Therefore, these operations are classified as discontinued operations for all periods.

*WSI Business*

The WSI business owns and operates English-language learning centers in four countries and is a franchisor of English language learning centers in 21 countries. On December 31, 2004, the Company and WSI Education S.a.r.l. executed an Agreement for Purchase of Shares that provided for the acquisition of substantially all of the Company's WSI business units and investments. The consideration for the sale of the shares

comprising the WSI business unit consisted of the following at closing:

Cash of \$15,000;

A subordinated note in the amount of \$15,000, bearing interest at 12.5%.

The final purchase price will be based on the lesser of eight times 2004 audited earnings before interest, taxes, depreciation, and amortization ( EBITDA ) or \$51,000. The Company closed the sale of WSI on February 28, 2005, however the Company and the buyer are in the process of completing the process required to provide for a final determination of the sales proceeds. At the time of settlement, the Company committed to finance up to 50% of the purchase price, capped at four

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times audited EBITDA, with a note bearing market interest and a step up provision of 0.5% per annum. Additionally, the proceeds received by the Company are subject to post closing adjustments based on working capital on the closing date. The Company is entitled to additional consideration if the operating results of WSI exceed specified levels of earnings in 2005 and 2006, up to a maximum of \$10,000, subject to an overall cap on total consideration received of \$51,000.

During the fourth quarter of 2004, the Company recorded an estimated loss on disposal of \$10,187, net of income tax expense of \$3,202. The loss reflected the change in the net realizable value of the net assets of the WSI business (including changes in the carrying value of the net assets resulting from foreign currency fluctuations) adjusted for estimated costs to close the WSI deal and accrued expenses related to indemnifications specified in the agreement. The accrued expenses and closing costs represent management's best estimate based on the facts and circumstances of the transaction. These estimates are subject to change based on new information that may arise in connection with fulfilling the terms of the agreement, and such changes could be material. To date, there have been no significant changes to the estimates recorded as of December 31, 2004.

### *Other*

In the first quarter of 2004, due to the unfavorable regulatory climate for private educational enterprises in India, the Company decided to terminate its current programs there, including the cessation of the educational activities of South Asia International Institute. In conjunction with this decision, the Company reduced the carrying value of its assets in India to expected realizable value upon final disposition.

In the first quarter of 2004, the Company completed the sale of the Sylvan Learning Center operations in France for solely contingent consideration. To date, no proceeds have been received.

### *Summarized Financial Information of Discontinued Operations*

Summarized operating results from the discontinued operations included in the Company's consolidated statement of operations were as follows for the three months ended March 31:

|   | WSI       |           | Other   |            |
|---|-----------|-----------|---------|------------|
|   | 2005      | 2004      | 2005    | 2004       |
| Revenues  | \$ 12,310 | \$ 17,562 | \$      | \$         |
| Pretax income (loss) from discontinued operations | \$ 480    | \$ (429)  | \$ (23) | \$ (2,276) |

The accompanying balance sheet at December 31, 2004 classifies the net assets of the WSI disposal group based on the probable timing of receipt of sales proceeds. Net assets of WSI at December 31, 2004 were as follows:

|                             |           |
|-----------------------------|-----------|
| Current assets              | \$ 37,446 |
| Property and equipment, net | 16,311    |



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|                                       |    |          |
|---------------------------------------|----|----------|
| Goodwill                              |    | 27,620   |
| Other assets                          |    | 8,773    |
| Current liabilities                   |    | (39,702) |
| Long-term liabilities                 |    | (566)    |
| Other comprehensive income            |    | (2,841)  |
| Net assets of discontinued operations | \$ | 47,041   |

**Note 4 Other Notes Receivable (Long-term)**

Other notes receivable (long-term) consist of the following:

|   | March 31,<br>2005 | December 31,<br>2004 |
|---|-------------------|----------------------|
| Other trade notes receivable (long-term), net of allowance of \$5,478 and \$5,846 at March 31, 2005 and December 31, 2004, respectively | \$ 25,893         | \$ 15,339            |
| Other notes receivable (long-term):   |                   |                      |
| Kendall College   | 21,151            | 18,026               |
| WSI Education S.a.r.l.  | 15,000            |                      |
| Other   | 9,854             | 17,019               |
|   | \$ 71,898         | \$ 50,384            |

The gross increase in long-term other trade notes receivable of \$10,186 is due to the primary enrollment at the southern hemisphere universities. Of this increase, \$9,234 was unearned as of March 31, 2005 and is included in deferred revenue on the Company's balance sheet. Tuition revenues are generally billable, and the full amount of notes receivable and related deferred revenue are recorded, when a note agreement is signed by the student.

**Note 5 Other Intangible Assets**

The following table summarizes other intangible assets as of March 31, 2005:

|                                 | Gross Carrying<br>Amount | Accumulated<br>Amortization | Net Carrying<br>Amount |
|---------------------------------|--------------------------|-----------------------------|------------------------|
| <i>Subject to amortization:</i> |                          |                             |                        |
| Student rosters                 | \$ 18,157                | \$ (8,916)                  | \$ 9,241               |
| Non-compete agreements          | 1,320                    | (955)                       | 365                    |
| Other                           | 803                      | (613)                       | 190                    |
| Total                           | \$ 20,280                | \$ (10,484)                 | \$ 9,796               |

Amortization expense for intangible assets subject to amortization for the three months ended March 31, 2005 and 2004 was \$1,362 and \$967, respectively. The estimated future amortization expense for intangible assets for the remaining nine-month period of 2005 is \$3,383. The estimated future amortization expense for intangible assets for each of the five years subsequent to December 31, 2005 is as follows: 2006 - \$3,881; 2007 - \$2,148; 2008 - \$367; 2009 - \$17; 2010 and beyond - \$0.

**Note 6 - Long-Term Debt**

Long-term debt consists of the following:

|   | March 31,<br>2005 | December 31,<br>2004 |
|---|-------------------|----------------------|
| Mortgage notes payable bearing interest at variable rates ranging from 3.25% to 8.5%              | \$ 39,553         | \$ 42,045            |
| Notes payable secured by fixed assets, bearing interest at rates ranging from 3.80% to 6.46%      | 17,380            | 18,303               |
| Capital lease obligations bearing interest at rates ranging from 4.99% to 8.64%                   | 14,293            | 16,424               |
| Various notes payable bearing interest at fixed rates ranging from 0.00% to 8.09%                 | 15,875            | 19,556               |
| Various notes payable bearing interest at variable rates ranging from 5.25% to 22.68%             | 5,605             | 14,669               |
| Various unsecured lines of credit bearing interest at variable rates ranging from 2.52% to 11.41% | 13,794            | 22,618               |
|   | 106,500           | 133,615              |
| Less: current portion of long-term debt   | 25,292            | 47,010               |
| Total long-term debt, net of current portion  | \$ 81,208         | \$ 86,605            |

**Note 7 - Due to Shareholders of Acquired Companies**

Due to shareholders of acquired companies consists of the following amounts payable in cash:

|  | March 31,<br>2005 | December 31,<br>2004 |
|--|-------------------|----------------------|
| Amounts payable to former shareholders of Universidad Andres Bello ( UNAB )                              | \$ 26,229         | \$ 27,773            |
| Amounts payable to former shareholders of Institute of Executive Development ( IEDE )                    |                   | 1,357                |
| Amounts payable to former shareholders of Universidad Interamericana ( UI )                              | 4,800             | 4,800                |
| Amounts payable to former shareholders of Universidad Latinoamericana de Ciencia y Tecnologia ( ULACIT ) | 100               | 100                  |
| Amounts payable to former shareholders of Universidad Peruana de Ciencias Aplicadas ( UPC )              | 2,999             | 2,984                |
| Amounts payable to former shareholders of Walden   |                   | 19,249               |
|  | 34,128            | 56,263               |
| Less: current portion of due to shareholders   | 5,946             | 26,861               |
| Total due to shareholders, net of current portion  | \$ 28,182         | \$ 29,402            |

**Note 8 - Income Taxes**

The Company's income tax provisions for all periods consist of federal, state, and foreign income taxes. The tax provisions for the three-month periods ended March 31, 2005 and 2004 were based on the estimated effective tax rates applicable for the 2005 and 2004 full years, after giving

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effect to significant items related specifically to the interim periods, including the mix of income for the period between higher and lower taxed jurisdictions. The Company's effective tax rate from continuing operations was 12.5% and 12.4% for the three months ended March 31, 2005 and 2004, respectively. The Company has operations in multiple countries, many of which have statutory tax rates lower than the United States. Generally lower tax rates in these foreign jurisdictions results in an effective tax rate significantly lower than the United States statutory rate.

In June of 2004, the Internal Revenue Service ( IRS ) completed their field examination of the Company's 1998 and 1999 federal income tax returns. In connection with this examination, the Company received notice of certain adjustments proposed by the IRS, primarily related to transfer pricing and the timing of certain deductions.

The Company vigorously disagrees with the proposed adjustments and intends to aggressively contest the proposed adjustments through applicable IRS and judicial procedures, as appropriate. Although the final resolution of the proposed adjustments is uncertain, based on current information, in the opinion of the management, the ultimate disposition of these matters will not have a material adverse effect on the Company's consolidated financial position, liquidity or results of operations.

**Note 9 Stockholders Equity**

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The components of stockholders' equity are as follows:

|   | Common<br>Stock | Additional<br>Paid-In<br>Capital | Retained<br>Earnings | Accumulated<br>Other<br>Comprehensive<br>Income | Total<br>Stockholders<br>Equity |
|---|-----------------|----------------------------------|----------------------|---|---------------------------------|
| Balance at December 31, 2004  | \$ 488          | \$ 474,928                       | \$ 355,989           | \$ 47,230                                       | \$ 878,635                      |
| Options exercised for purchase of 504<br>shares of common stock, including<br>income tax benefit of \$857 | 5               | 6,394                            |                      |   | 6,399                           |
| Non-cash stock compensation   |                 | 780                              |                      |   | 780                             |
| Other   |                 | (46)                             |                      |   | (46)                            |
| Comprehensive income (loss):  |                 |                                  |                      |   |                                 |
| Net income for the three months ended<br>March 31, 2005   |                 |                                  | 4,596                |   | 4,596                           |
| Foreign currency translation adjustment   |                 |                                  |                      | (16,503)  | (16,503)                        |
| Unrealized gain on available-for-sale<br>securities   |                 |                                  |                      | 14  | 14                              |
| Minimum pension liability adjustment  |                 |                                  |                      | (22)  | (22)                            |
| Total comprehensive loss  |                 |                                  |                      |   | (11,915)                        |
| Balance at March 31, 2005   | \$ 493          | \$ 482,056                       | \$ 360,585           | \$ 30,719                                       | \$ 873,853                      |

**Note 10 Comprehensive Income (Loss)**

The components of comprehensive income (loss), net of related income taxes, are as follows:

|  | Three months ended<br>March 31, |            |
|--|---------------------------------|------------|
|  | 2005                            | 2004       |
| Net income (loss)  | \$ 4,596                        | \$ (384)   |
| Foreign currency translation adjustment                      | (16,503)                        | (5,874)    |
| Unrealized gain on available-for-sale securities, net of tax | 14                              | 6          |
| Minimum pension liability adjustment                         | (22)                            |            |
| Comprehensive loss   | \$ (11,915)                     | \$ (6,252) |

**Note 11 - Earnings (Loss) Per Share**

The following table summarizes the computations of basic and diluted earnings (loss) per share:

|  | Three months ended<br>March 31, |           |
|--|---------------------------------|-----------|
|  | 2005                            | 2004      |
| Numerator used in basic and diluted earnings (loss) per common share:                        |                                 |           |
| Income from continuing operations  | \$ 3,854                        | \$ 2,507  |
| Income (loss) from discontinued operations, net of tax                                       | 742                             | (2,891)   |
| Net income (loss)  | \$ 4,596                        | \$ (384)  |
| Denominator for basic earnings (loss) per share  |                                 |           |
| weighted-average common shares outstanding   | 49,237                          | 44,925    |
| Net effect of dilutive stock options based on treasury stock method                          | 2,577                           | 2,559     |
| Denominator for diluted earnings (loss) per share weighted average common shares outstanding | 51,814                          | 47,484    |
| Earnings (loss) per common share, basic:   |                                 |           |
| Income from continuing operations  | \$ 0.08                         | \$ 0.06   |
| Income (loss) from discontinued operations, net of tax                                       | 0.02                            | (0.06)    |
| Earnings (loss) per common share   | \$ 0.09                         | \$ (0.01) |
| Earnings (loss) per common share, diluted:   |                                 |           |
| Income from continuing operations  | \$ 0.07                         | \$ 0.05   |
| Income (loss) from discontinued operations, net of tax                                       | 0.01                            | (0.06)    |
| Earnings (loss) per common share   | \$ 0.09                         | \$ (0.01) |

Per share amounts may not sum due to rounding differences.

**Note 12 Commitments and Contingencies***Purchase Obligations*

As part of the fourth quarter 2004 acquisition of Ecole Centrale d Electronique ( ECE ), the Company committed to purchase the remaining 30% ownership from the sellers on December 31, 2008 for approximately \$9,072. The purchase obligation is denominated in Euros, and is subject to foreign currency exchange rate risk on the date of payment.

As part of the fourth quarter 2004 acquisition of Institut Francais de Gestion, SAS ( IFG ), the Company committed to additional capital contributions, which will increase the Company's share of ownership. The agreement provides that, no later than July 31, 2006 and July 31, 2007, the Company must contribute approximately \$1,625 and \$2,421, resulting in an increase in ownership share of 16% and 23%, respectively. In addition, during the period October through November 2008, the sellers may exercise a put option requiring the Company to purchase the remaining 10% ownership for approximately \$1,037. The purchase obligation is denominated in Euros, and is subject to foreign

currency exchange rate risk on the dates of payment.

*Loss Contingencies*

The Company is subject to legal actions arising in the ordinary course of its business. In management's opinion, the Company has adequate legal defenses and/or insurance coverage with respect to the eventuality of such actions and does not believe any settlement would materially affect the Company's financial position.

*Contingent Payments*

In connection with certain acquisitions, variable amounts of contingent consideration are payable to the seller based upon specified terms. All existing contingent consideration agreements are predicated upon improved operating profitability of



the acquired entities and utilize multiples consistent with those used to calculate the initial purchase price. The Company will record the contingent consideration when the contingencies are resolved and the additional consideration is payable.

Additional amounts of contingent consideration are due the sellers of UDLA based on operating results for the three years ending December 31, 2006. On the later of March 31, 2006 or 45 days after the Company receives the audited financial statements of Decon, the holding company that controls and operates UDLA, the Company is obligated to the sellers for an amount equal to 60% of six times (i) average EBIT for 2004 and 2005, less (ii) 2000 EBIT; this result is reduced by (iii) 42% of certain specified debt. Assuming EBIT remains at 2004 levels for 2005, the Company would be obligated to the sellers for approximately \$60,866. No later than March 31, 2007, the Company is obligated to the sellers for an amount equal to 20% of four times (i) average EBIT for 2005 and 2006; this result is reduced by (ii) 20% of certain specified debt and (iii), \$6,500. Assuming EBIT remains at 2004 levels for 2005 and 2006, the Company would be obligated to the sellers for approximately \$12,559. The Company has pledged its shares of Decon to satisfy its payment obligations to the sellers. The Company cannot dispose of, lien or encumber the shares without the prior approval of the sellers.

Effective April 1, 2008 the minority owners of UDLA have the right to require the Company to purchase their remaining 20% interest in Decon for a variable purchase price based on average EBIT for certain specified periods. Effective April 1, 2009 the Company has a call right to acquire the remaining 20% interest under a similar methodology for certain specified periods.

Effective April 1, 2009 the minority owners of UNAB and AIEP have the right to require the Company to purchase their 20% interest for a variable purchase price based on average EBIT for certain specified periods. Effective April 1, 2009 the Company has a call right to acquire this 20% interest under a similar methodology for certain specified periods.

Additional amounts of contingent consideration, not to exceed \$10,000, are due the sellers of KIT eLearning BV equal to four times the average of the audited earnings before interest, income taxes, depreciation and amortization for the calendar years ending December 31, 2006 and 2007. KIT eLearning BV was acquired on March 31, 2004 and is operated as Laureate Online Education BV.

#### *Guarantees*

Subsequent to the June 2003 divestiture of the Company's K-12 business segments, all leases related to Sylvan Learning Centers were renegotiated or assigned in the name of Educate, Inc. ( Educate ) during the third quarter of 2003. Leases with remaining payments of \$6,927 through December 2008 are guaranteed by the Company. Under the terms of the Asset Purchase Agreement with Educate, the Company is indemnified against any losses suffered as a result of these lease guarantees. During 2004, Laureate entered into an agreement to guarantee lease payments owed by Kendall College to Key Equipment Finance. Leases with remaining payments of \$4,892 through December 2011 are guaranteed by the Company.

#### *Standby Letters of Credit*

The Company has \$15,228 outstanding in standby letters of credit. The Company is self-insured for workers compensation and other insurable risks up to predetermined amounts above which third party insurance applies. The Company is contingently liable to insurance carriers under certain of these policies and has provided a letter of credit in favor of the insurance carriers for \$1,258. The Company has also issued a standby

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letter of credit in the amount of \$1,400 assuring the collectibility of a line of credit at AIEP, which is being used for working capital purposes. The outstanding balance on the line of credit was \$1,386 at March 31, 2005. In the first quarter of 2005, the company issued a \$12,000 standby letter of credit in favor of WSI Education S.a.r.l. for a tax indemnification related to the sale of WSI.

### *Commitments*

Under terms of note agreements with Kendall College, the Company has committed to provide additional funding to Kendall College of up to \$2,550.

### **Note 13 - Business and Geographic Segment Information**

The Company is focused exclusively on providing a superior higher education experience to over 168,000 students through a leading global network of accredited campus-based and online higher education institutions. The Company's educational services are offered through three reportable segments: Latin America, Europe and Laureate Online Education.

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The accounting policies of the segments are the same as those described in the significant accounting policies. The Company evaluates performance based on profit or loss from operations before income taxes, corporate general and administrative expenses, non-cash stock compensation expense and campus-based overhead expenses.

The Latin America segment consists of eight separately accredited universities and one accredited professional institute, and has operations in Mexico, Chile, Peru, Ecuador, Panama, and Costa Rica. Latin America higher education institutions currently enroll approximately 130,000 full-time students and offer more than 100 degree programs through 35 campuses. The schools primarily serve 18- to 24-year-old students as well as working adults and offer an education that emphasizes career-oriented fields of study with undergraduate and graduate degrees in a wide range of disciplines, including international business, law, health sciences, information technology and engineering.

The Europe segment consists of one accredited university and several other accredited post-secondary institutions, and has operations in Spain, Switzerland, and France. Europe higher education institutions currently enroll approximately 15,000 full-time students and offer more than 75 degree programs through 8 campuses. The schools primarily serve 18- to 24-year-old students and offer an education that emphasizes career-oriented fields of study with undergraduate and graduate degrees in a wide range of disciplines, including international business, hotel management, health sciences, architecture and engineering.

The Company believes that all of its campus-based higher education institutions benefit from strong academic reputations and brand awareness, and established operating histories. Each school also has flexible, non-tenured, teaching-focused faculty and is led by an experienced local management team.

The Laureate Online Education segment offers undergraduate and graduate degree programs to working professionals through distance learning. Laureate Online Education consists of Walden, Canter, and Laureate Online Education BV, which collectively offer degree programs including education, psychology, health and human services, management, engineering, and information technology. Laureate Online Education institutions currently enroll approximately 23,000 students.

These reportable segments are business units that offer distinct services and are managed separately. The campus-based reportable segments of Latin America and Europe are not aggregated with Laureate Online Education as Laureate Online Education offers services to a different class of customer, through a different delivery system, and with different economic characteristics. The Latin America and Europe segments are managed separately and have certain differences in classes of customer and economic characteristics, and thus are not aggregated together.

Prior to 2004, the Company's reportable segments consisted of Campus Based and Laureate Online Education. The segment information for the three month period ended March 31, 2004 has been reclassified to conform to current year presentation.

The following table sets forth information on the Company's reportable segments:

| <b>Three months ended March 31,<br/>2005</b> | <b>Latin America</b> |        | <b>Europe</b> |        | <b>Laureate Online Education</b> |        | <b>Total</b> |
|--|----------------------|--------|---------------|--------|----------------------------------|--------|--------------|
| Revenues                                     | \$                   | 88,015 | \$            | 56,636 | \$                               | 39,463 | \$ 184,114   |
| Segment profit                               |                      | 4,744  |               | 8,863  |                                  | 1,213  | 14,820       |

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| Three months ended March 31,<br>2004 | Latin America |        | Europe |        | Laureate Online<br>Education |        | Total      |
|--------------------------------------|---------------|--------|--------|--------|------------------------------|--------|------------|
| Revenues                             | \$            | 66,273 | \$     | 41,199 | \$                           | 24,684 | \$ 132,156 |
| Segment profit                       |               | 3,563  |        | 8,775  |                              | 164    | 12,502     |

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The following tables reconcile the reported information on segment profit to income from continuing operations before income taxes, minority interest, and equity in net loss of affiliates reported in the statements of operations for the three months ended March 31:

|   | 2005      |    | 2004    |
|---|-----------|----|---------|
| Total profit for reportable segments  | \$ 14,820 | \$ | 12,502  |
| Campus-based segments overhead  | (2,590)   |    | (2,909) |
| General and administrative expense  | (6,214)   |    | (5,289) |
| Non-cash compensation expense   | (780)     |    | (712)   |
| Net non-operating income  | 291       |    | 2,104   |
| Income from continuing operations before income taxes, minority interest and equity in net loss of affiliates | \$ 5,527  | \$ | 5,696   |

Revenue information of continuing operations by geographic area for the three months ended March 31 is as follows:

|                         | 2005       |    | 2004    |
|-------------------------|------------|----|---------|
| <b>Revenues</b>         |            |    |         |
| Mexico                  | \$ 59,442  | \$ | 45,332  |
| United States           | 36,582     |    | 24,684  |
| Spain                   | 31,368     |    | 27,911  |
| Chile                   | 17,307     |    | 15,991  |
| France                  | 13,726     |    | 2,635   |
| Switzerland             | 11,542     |    | 10,643  |
| Other foreign countries | 14,147     |    | 4,960   |
| Consolidated total      | \$ 184,114 | \$ | 132,156 |

Revenues are attributed to countries based on the location of the customer.

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

*The statements contained herein include forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended. Forward-looking statements include information about possible or assumed results of operations, business strategies, financing plans, competitive position and potential growth opportunities. Forward-looking statements include all statements that are not historical facts and are generally accompanied by words such as may, will, intend, anticipate, believe, estimate, expect, should or similar expressions. Forward-looking statements also relate to the Company's contingent payment obligations relating to acquisitions, future capital requirements, potential acquisitions and the Company's future development plans and are based on current expectations. Forward-looking statements involve various risks, uncertainties and assumptions.*

*Future events and actual results could differ materially from those set forth in the forward-looking statements as a result of many factors. These factors may include, without limitation: the Company's ability to continue to make acquisitions and to successfully integrate and operate acquired businesses; changes in student enrollment; the effect of new technology applications in the educational services industry; failure to maintain or renew required regulatory approvals, accreditations or authorizations; the Company's ability to effectively manage business growth; possible increased competition from other educational service providers; the effect on the business and results of operations of fluctuations in the value of foreign currencies; and the many risks associated with the operation of an increasingly global business, including complicated legal structures, legal, tax and economic risks and the risk of changes in the business climate in the markets where the Company operates. These forward-looking statements are based on estimates, projections, beliefs and assumptions of management and speak only as of the date made and are not guarantees of future performance.*

### Overview

Laureate is focused exclusively on providing a superior higher education experience to over 168,000 students through the leading global network of accredited campus-based and online higher education institutions. The Company's educational services are offered through three separate reportable segments: Campus Based - Latin America (Latin America), Campus Based - Europe (Europe) and Laureate Online Education. Latin America and Europe own or maintain controlling interests in nine and seven separately accredited higher education institutions, respectively. The Latin America segment has locations in Mexico, Chile, Peru, Ecuador, Panama, and Costa Rica. The Europe segment has locations in Spain, Switzerland, and France. The Laureate Online Education segment provides career-oriented degree programs to approximately 23,000 students through Walden E-Learning, Inc. (Walden), Laureate Education Online BV, and Canter and Associates (Canter).

### Sale of Business Units

On February 28, 2005, the Company closed the sale of its Wall Street Institute (WSI) business to WSI Education S.a.r.l.. The WSI business was classified as discontinued in both the first quarter of 2004 and the first quarter of 2005. See Note 3 to the consolidated financial statements for more information regarding this transaction.

### Seasonality

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Most of the schools in the Company's network have a summer break when classes are generally not in session and during which minimal revenues are recognized. Operating expenses, however, do not fully correlate to the enrollment and revenue cycles, as the schools continue to incur fixed costs during summer breaks. As a result, the fourth quarter is the Company's strongest quarter because all of its higher education institutions are in session. The second quarter is also strong as most schools have classes in session, although the Company's largest school, located in Mexico, is in session for only part of that quarter. The first and third quarters are weaker quarters because the majority of the Company's schools have summer breaks for some portion of one of these two quarters. Due to this seasonality, revenues and profits in any quarter are not necessarily indicative of results in subsequent quarters.

The following chart shows the enrollment cycles for each higher education institution. In the chart, shaded areas represent periods when classes are generally in session and revenues are recognized. Areas that are not shaded represent summer breaks during which revenues are not typically recognized. The large circles indicate the Primary Enrollment start dates of the Company's schools, and the small circles represent Secondary Enrollment start dates (smaller intake cycles).

**Reportable Segments**

The following table is derived from the Company's consolidated financial statements and represents financial information of the Company's reportable segments for the three months ended March 31, 2005 and 2004, excluding discontinued operations:

|                                     | Latin<br>America | Europe    | Laureate<br>Online<br>Education<br>(in thousands) | Unallocated | Consolidated |
|-------------------------------------|------------------|-----------|---|-------------|--------------|
| <b>March 31, 2005</b>               |                  |           |   |             |              |
| Segment revenues                    | \$ 88,015        | \$ 56,636 | \$ 39,463   | \$          | \$ 184,114   |
| Segment direct costs                | (83,271)         | (47,773)  | (38,250)  |             | (169,294)    |
| Campus-based segments overhead      |                  |           |   | (2,590)     | (2,590)      |
| Segment profit (loss)               | 4,744            | 8,863     | 1,213   | (2,590)     | 12,230       |
| General and administrative expenses |                  |           |   | (6,214)     | (6,214)      |
| Non-cash stock compensation expense |                  |           |   | (780)       | (780)        |
| Operating income (loss)             | \$ 4,744         | \$ 8,863  | \$ 1,213  | \$ (9,584)  | \$ 5,236     |
| <b>March 31, 2004</b>               |                  |           |   |             |              |
| Segment revenues                    | \$ 66,273        | \$ 41,199 | \$ 24,684   | \$          | \$ 132,156   |
| Segment direct costs                | (62,710)         | (32,424)  | (24,520)  |             | (119,654)    |
| Campus-based segments overhead      |                  |           |   | (2,909)     | (2,909)      |
| Segment profit (loss)               | 3,563            | 8,775     | 164   | (2,909)     | 9,593        |
| General and administrative expenses |                  |           |   | (5,289)     | (5,289)      |
| Non-cash stock compensation expense |                  |           |   | (712)       | (712)        |
| Operating income (loss)             | \$ 3,563         | \$ 8,775  | \$ 164  | \$ (8,910)  | \$ 3,592     |



The Company's direct costs include all expenses incurred by operating units including selling and administrative expenses. The Company's campus-based segments' overhead represents centralized costs incurred in support of the international network of universities, relating primarily to strategic planning, resource allocation, identification of acquisition targets, and oversight of acquisition transactions. As such, these costs are not properly allocable to the operating results of Latin America and Europe.

The following comparison of results of operations focuses on the continuing operations of the Company.

*Comparison of results for the three months ended March, 31, 2005 to results for the three months ended March 31, 2004.*

**Revenues.** Total revenues increased by \$51.9 million, or 39%, to \$184.1 million for the three months ended March 31, 2005 (the 2005 fiscal quarter ) from \$132.2 million for the three months ended March 31, 2004 (the 2004 fiscal quarter ). This revenue increase was driven primarily by increased total enrollment at the Company's higher education institutions, plus the impact of acquisitions within the last two years.

*Latin America* revenue for the 2005 fiscal quarter increased by \$21.7 million, or 33%, to \$88.0 million compared to the 2004 fiscal quarter. Enrollment increases of 17.5% in schools owned in both fiscal quarters added revenues of \$11.2 million over the 2004 fiscal quarter, and acquisitions within the last 12 months contributed additional revenue of \$11.1 million. For schools owned in both fiscal quarters, the Company increased local currency tuition by a weighted average of 2.8%, which served to increase revenues by \$3.7 million. Each institution in the segment offers tuitions at various prices based upon degree program. For the 2005 fiscal quarter, the effects of product mix resulted in a \$3.8 million reduction in revenue compared to the 2004 fiscal quarter, primarily due to lower-priced working adult and high school enrollments. The effects of currency translation decreased revenues by \$0.5 million, primarily due to the weaker Mexican Peso relative to the U.S. Dollar, partially offset by the strengthening of the Chilean Peso against the U.S. Dollar. Latin America revenue represented 48% of total revenues for the 2005 fiscal quarter, and 50% of total revenues for the 2004 fiscal quarter.

*Europe* revenue for the 2005 fiscal quarter increased by \$15.4 million, or 37%, to \$56.6 million compared to the 2004 fiscal quarter. Enrollment increases of 0.9% in schools owned in both fiscal quarters added revenues of \$0.3 million over the 2004 fiscal quarter, and acquisitions within the last 12 months contributed additional revenue of \$10.7 million. For schools owned in both fiscal quarters, the Company increased local currency tuition by a weighted average of 6.0%, which served to increase revenues by \$2.4 million. Each institution in the segment offers tuitions at various prices based upon degree or certificate program. For the 2005 fiscal quarter, the effects of product mix resulted in a \$0.3 million reduction in revenue compared to the 2004 fiscal quarter, primarily due to lower-priced post-graduate enrollment growth in Spain exceeding undergraduate enrollment growth. The effects of currency translation increased revenues by \$2.3 million, due to the strengthening of the Euro and Swiss Franc against the U.S. Dollar. Europe revenue represented 31% of total revenues for both the 2005 fiscal quarter and the 2004 fiscal quarter.

*Laureate Online Education* revenue increased by \$14.8 million, or 60%, to \$39.5 million for the 2005 fiscal quarter compared to the 2004 fiscal quarter. Enrollment increases of 29%, excluding Laureate Online Education, B.V., added revenues of \$5.6 million, and the Laureate Online Education B.V. acquisition added revenues of \$2.9 million. Tuition increases accounted for \$1.1 million of additional revenues, and other factors, primarily a favorable change in degree program mix, added \$5.2 million. Laureate Online Education revenue represented 21% of total revenues for the 2005 fiscal quarter, and 19% of total revenues for the 2004 fiscal quarter.

**Direct Costs.** Total direct costs of revenues increased \$49.3 million, or 40%, to \$171.9 million for the 2005 fiscal quarter from \$122.6 million for the 2004 fiscal quarter. Direct costs remained at 93% of total revenues in the 2005

fiscal quarter from the 2004 fiscal quarter.

*Latin America* direct costs increased by \$20.6 million to \$83.3 million, or 95% of Latin America revenue for the 2005 fiscal quarter, compared to \$62.7 million or 95% of Latin America revenue for the 2004 fiscal quarter. An increase of \$9.1 million in expenses reflected higher expenses due to increased enrollments and expanded operating activities compared to the 2004 fiscal quarter. Acquired businesses increased expenses by \$11.8 million. For the 2005 fiscal quarter, the effects of currency translations decreased expenses by \$0.3 million, primarily due to the strengthening of the Chilean Peso against the U.S. Dollar, partially offset by the weakening of the Mexican Peso relative to the U.S. Dollar.

*Europe* direct costs increased by \$15.3 million to \$47.8 million, or 84% of Europe revenue for the 2005 fiscal quarter, compared to \$32.4 million, or 79% of Europe revenue for the 2004 fiscal quarter. The decrease in margin was due to the strategic acquisition of a lower margin business. Higher enrollments and expanded operations at the higher education institutions compared to the 2004 fiscal quarter increased expenses by \$2.7 million, and acquired businesses increased expenses by \$10.8 million. For the 2005 fiscal quarter, the effects of currency translations increased expenses by \$1.8 million, due to the strengthening of the Euro and Swiss Franc against the U.S. Dollar.

*Campus-based segments overhead* expense decreased by \$0.3 million to \$2.6 million for the 2005 fiscal quarter, compared to \$2.9 million for the 2004 fiscal quarter.

*Laureate Online Education* direct costs increased by \$13.7 million to \$38.3 million, or 97% of Laureate Online Education revenue for the 2005 fiscal quarter, compared to \$24.5 million, or 99% of Laureate Online Education revenue for the 2004 fiscal quarter. The decrease in direct costs as a percentage of revenues was the result of improved Walden margins resulting from higher enrollment volume.

**Other Operating Expenses.** Other expenses increased by \$1.0 million to \$7.0 million for the 2005 fiscal quarter from \$6.0 million for the 2004 fiscal quarter.

*General and administrative expenses* increased by \$0.9 million in the 2005 fiscal quarter to \$6.2 million from \$5.3 million in the 2004 fiscal quarter. The increase in expenses was primarily due to higher payroll and other employee related costs resulting from increased headcount, training costs and travel expenses to support the rapid growth in the Company's global operations.

*Non-cash stock compensation expense* increased \$0.1 million to \$0.8 million for the 2005 fiscal quarter compared to \$0.7 million for the 2004 fiscal quarter. Restricted stock issued by the Company to senior executives resulted in non-cash compensation expense of \$0.7 million in the 2005 fiscal quarter compared to \$0.5 million in the 2004 fiscal quarter.

**Non-Operating Income/Expenses.** Non-operating income/expenses decreased to income of \$0.3 million for the 2005 fiscal quarter from income of \$2.1 million in the 2004 fiscal quarter.

*Interest and other income* decreased \$0.9 million to \$2.4 million from \$3.3 million in the 2004 fiscal quarter, primarily due to a reduction in interest income related to the early repayment of a note receivable originally issued on June 30, 2003, as partial consideration for the sale of the Company's K-12 segments to Educate with an original issue discount of \$13.4 million.

*Interest expense* increased \$0.8 million primarily due to debt balances assumed in connection with the Company's 2004 acquisitions.

**Minority Interest in Income of Affiliates, Net of Tax.** Minority interest in income of affiliates decreased \$1.6 million to \$0.9 million in the 2005 fiscal quarter from \$2.5 million in the 2004 fiscal quarter. This decrease was primarily due to the Company's buy-out of the ownership interests of the minority shareholders at Walden and UEM in September 2004 and December 2004, respectively.

**Income Taxes.** The Company has operations in multiple countries, many of which have statutory tax rates lower than the United States. Approximately 80% of the Company's revenues are generated outside the United States. Generally lower effective tax rates in these foreign jurisdictions results in an effective tax rate significantly lower than the United States statutory rate.

The Company's effective tax rates from continuing operations were 12.5% and 12.4% for the 2005 and 2004 fiscal quarters, respectively.

### **Liquidity and Capital Resources**

Cash provided by operations was \$45.1 million for the 2005 fiscal quarter, compared to cash provided by operations of \$21.3 million for the 2004 fiscal quarter. The reported net income in the 2005 fiscal quarter of \$4.6 million included significant non-cash expenses and charges, primarily depreciation and amortization of \$11.6 million, non-cash stock compensation expense of \$0.8 million, minority interest of \$0.9 million, partially offset by non-cash items of \$2.7 million. Cash provided by changes in operating assets and liabilities totaled \$29.8 million in the 2005 fiscal quarter, compared to \$10.7 million in the 2004 fiscal quarter. Changes in operating assets and liabilities in the 2005 fiscal quarter included growth in deferred revenue and receipt of an income tax refund, partially offset by the growth in receivables. In the fiscal 2004 quarter, growth in deferred revenue was also partially offset by growth in receivables. The reported 2004 fiscal quarter net loss of \$0.4 million included significant non-cash expenses and charges such as depreciation and amortization of \$8.5 million, non-cash stock compensation expense of \$0.7 million, and minority interest of \$2.5 million.

Cash used in investing activities was \$40.8 million for the 2005 fiscal quarter, compared to cash used in investing activities of \$1.5 million for the 2004 fiscal quarter. The 2005 fiscal quarter investment activity included net cash paid for acquired businesses of \$26.3 million, purchases of property and equipment of \$14.4 million primarily related to construction of new campuses and campus expansion, net cash paid for the purchase of available-for-sale securities of \$7.6 million, cash loaned in exchange for notes receivable of \$2.8 million, and expenditures for deferred costs and other assets of \$2.5 million. These cash flows were offset by the proceeds, net of cash sold, from the sale of discontinued operations of \$12.7 million. Investment activity in the 2004 fiscal quarter was primarily the result of cash paid for acquisitions, net of cash paid acquired of \$6.1 million, purchases of property and equipment of \$12.6 million and expenditures for deferred costs and other assets of \$1.4 million. These cash flows were offset by net cash proceeds from the sale of available-for-sale securities of \$16.4 million and proceeds from the redemption of a cost investment of \$2.2 million.

Cash used in financing activities was \$14.8 million in the 2005 fiscal quarter, compared to cash provided by financing activities of \$3.1 million in the 2004 fiscal quarter. The 2005 fiscal quarter financing activity related primarily to debt repayments of \$48.0 million less cash received from the issuance of long-term debt of \$28.6 million, and a decrease in long term liabilities of \$0.9 million. These cash flows were offset by cash received from the exercise of options of \$5.5 million. Financing activity in the 2004 fiscal quarter related primarily to cash received from the exercise of options of \$3.4 million, cash received from the issuance of long-term debt of \$20.5 million less cash repayments of \$22.6 million, and an increase in other long-term liabilities of \$1.6 million.

The Company anticipates that cash flow from operations, available cash and existing credit facilities will be sufficient to meet its operating requirements, including expansion of its existing business, funding campus-based higher education institution acquisitions, and payment of contingent consideration. The Company continues to examine opportunities in the educational services industry for potential synergistic acquisitions and expects that existing capital resources (including credit facilities) will be sufficient to continue to acquire businesses in the educational services industry for at least the next several years. However, if the Company were to pursue a number of large acquisitions, additional debt or equity capital may be required. The Company cannot be certain that this capital would be available on attractive terms, if at all.

### Contractual Obligations and Contingent Matters

The following tables reflect the Company's contractual obligations and other commercial commitments as of March 31, 2005:

| Contractual Obligations                   | Total      | Payments Due by Period<br>(in thousands) |                  |                  |                   |
|---|------------|--|------------------|------------------|-------------------|
|   |            | Due in less than 1 year                  | Due in 1-3 years | Due in 4-5 years | Due after 5 years |
| Long-term debt (1)                        | \$ 106,500 | \$ 25,292                                | \$ 34,432        | \$ 9,964         | \$ 36,812         |
| Operating leases                          | 254,505    | 30,200                                   | 88,971           | 45,019           | 90,315            |
| Due to shareholders of acquired companies | 34,128     | 5,946                                    | 27,182           | 1,000            |                   |
| Other long term liabilities (2)           | 3,750      | 3,000                                    | 750              |                  |                   |
| Total contractual cash obligations        | \$ 398,883 | \$ 64,438                                | \$ 151,335       | \$ 55,983        | \$ 127,127        |

**Amount of Commitment  
Expiration Per Period  
(in thousands)**

| <b>Commercial Commitments</b> | <b>Total<br/>Amounts<br/>Committed</b> | <b>Due in less<br/>than 1year</b> | <b>Due in 1-3<br/>years</b> | <b>Due in 4-5<br/>years</b> | <b>Due after 5<br/>years</b> |
|-------------------------------|--|-----------------------------------|-----------------------------|-----------------------------|------------------------------|
| Lines of credit               | \$                                     | \$                                | \$                          | \$                          | \$                           |
| Guarantees (3)                | 11,819                                 | 4,493                             | 5,123                       | 1,478                       | 725                          |
| Purchase Obligations(4)       | 14,155                                 |                                   | 14,155                      |                             |                              |
| Standby letters of credit(5)  | 15,228                                 | 15,228                            |                             |                             |                              |
| Kendall College(6)            | 2,550                                  | 2,250                             | 300                         |                             |                              |
| Total commercial commitments  | \$ 43,752                              | \$ 21,971                         | \$ 19,578                   | \$ 1,478                    | \$ 725                       |

(1)Effective June 30, 2003, the Company entered into an unsecured line of credit agreement of \$30.0 million, with a \$5.0 million sub-limit for standby letters of credit, which is intended for working capital purposes. The line of credit expires August 2005. There was no outstanding balance on the line of credit at March 31, 2005. Individual units within campus-based operations have unsecured lines of credit, which total \$27.1 million, primarily for working capital purposes. The aggregate outstanding balance on the campus-based segments lines of credit was \$17.7 million at March 31, 2005, which is included in the current portion of long-term debt. The weighted average short-term borrowing rates were 5.1% and 5.0% at March 31, 2005 and 2004 respectively.

(2)In connection with the sale of substantially all of the Company's K-12 segments to Educate, the Company entered into a three-year management service agreement with Educate. Under the terms of the agreement, Educate provides certain support services, including specified accounting, benefits, IT, human resources, purchasing and payroll services to Laureate. Conversely, the Company will provide certain support services, primarily in the areas of facilities, tax, and treasury, to Educate. The agreement is based on a fixed-fee, adjusted as appropriate based on increases to predetermined service volumes. The net fee due to Educate on an annual basis is approximately \$3.0 million.

(3)Subsequent to the divestiture of the K-12 segments, all leases related to Sylvan Learning Centers acquired by Educate were renegotiated or assigned in the name of Educate during the third quarter of 2003. Leases with remaining payments of \$6.9 million through December 2008 are guaranteed by the Company. Under the terms of the Asset Purchase Agreement with Educate, the Company is indemnified against any losses suffered as a result of these lease guarantees. During 2004, the Company entered into an agreement to guarantee lease payments owed by Kendall College to Key Equipment Finance. Leases with remaining payments of \$4.9 million through December 2011 are guaranteed by the Company under this agreement.

(4)As part of the fourth quarter 2004 acquisition of Ecole Centrale d'Electronique (ECE), the Company committed to purchase the remaining 30% ownership from the sellers on December 31, 2008 for approximately \$9.1 million. The agreement is denominated in Euros, and is subject to foreign currency exchange rate risk on the date of payment. As part of the fourth quarter 2004 acquisition of Institut Francais de Gestion, SAS (IFG), the Company committed to additional capital contributions, which will increase the Company's share of ownership. The agreement provides that, no later than July 31, 2006 and July 31, 2007, the Company must contribute approximately \$1.6 million and \$2.4 million, resulting in an increase in ownership share of 16% and 23%, respectively. In addition, during the period October through November 2008, the sellers may exercise a put option requiring the Company to purchase the remaining 10% ownership for approximately \$1.0 million. The agreement is denominated in Euros, and is subject to foreign currency exchange rate risk on the dates of payment.

(5)The Company has approximately \$15.2 million outstanding in standby letters of credit. The Company is self-insured for workers compensation and other insurable risks up to predetermined amounts above which third party insurance applies. The Company is contingently liable to insurance carriers under certain of these policies and has provided a letter of credit in favor of the insurance carriers for approximately \$1.3 million. The Company has also issued a standby letter of credit in the amount of \$1.4 million assuring the collectibility of a line of credit at AIEP, which is being used for working capital purposes. The outstanding balance on the AIEP line of credit was \$1.4 million at March 31, 2005. In the first quarter of 2005, the Company issued a \$12.0 million standby letter of credit in favor of WSI Education S.A.R.L. for a tax

indemnification related to the WSI sale.



(6) Under terms of the note agreements with Kendall College, the Company has committed to provide additional funding to Kendall College of up to \$2.6 million.

In connection with certain acquisitions, variable amounts of contingent consideration are payable to the sellers based upon specified terms. All existing contingent consideration agreements are predicated upon improved operating profitability of the acquired entities, based on multiples consistent with those used to calculate the initial purchase price. The Company will record the contingent consideration when the contingencies are resolved and the additional consideration becomes payable.

Additional amounts of contingent consideration are due the sellers of Universidad de Las Americas ( UDLA ) based on operating results for the three years ending December 31, 2006. On the later of March 31, 2006 or 45 days after the Company receives the audited financial statements of Decon, the holding company that controls and operates UDLA, the Company is obligated to the sellers for an amount equal to 60% of six times (i) average earnings before interest and income taxes ( EBIT ) for 2004 and 2005, less (ii) 2000 EBIT; this result is reduced by (iii) 42% of certain specified debt. Assuming EBIT remains at 2004 levels for 2005, the Company would be obligated to the sellers for approximately \$60.9 million. No later than March 31, 2007, the Company is obligated to the sellers for an amount equal to 20% of four times (i) average EBIT for 2005 and 2006; this result is reduced by (ii) 20% of certain specified debt and (iii), \$6.5 million. Assuming EBIT remains at 2004 levels for 2005 and 2006, the Company would be obligated to the sellers for approximately \$12.6 million. The Company has pledged its shares of Decon to satisfy its payment obligations to the sellers. The Company cannot dispose of, lien or encumber the shares without the prior approval of the sellers.

Effective April 1, 2008, the minority owners of UDLA have the right to require the Company to purchase their remaining 20% interest in Decon for a variable purchase price based on average EBIT for certain specified periods. Effective April 1, 2009, the Company has a call right to acquire the remaining 20% interest under a similar methodology for certain specified periods.

Effective April 1, 2009, the minority owners of Universidad Andres Bello ( UNAB ) and Academia de Idiomas y Estudios Profesionales ( AIEP ) have the right to require the Company to purchase their 20% interest for a variable purchase price based on average EBIT for certain specified periods. Effective April 1, 2009, the Company has a call right to acquire this 20% interest under a similar methodology for certain specified periods.

Additional amounts of contingent consideration, not to exceed \$10.0 million, are due the sellers of KIT eLearning BV equal to four times the average of the audited earnings before interest, income taxes, depreciation and amortization for the calendar years ending December 31, 2006 and 2007. KIT eLearning BV was acquired on March 31, 2004 and is operated as Laureate Online Education BV.

#### **Impact of Recently Issued Accounting Standards.**

In December 2004, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards ( SFAS ) No. 123 (revised 2004), Share-Based Payment. SFAS 123R requires all share-based payments to employees, including grants of employee stock options, to be recognized in the income statement based on their fair values. As permitted by SFAS 123, the Company currently accounts for share-based payments to employees using Accounting Principles Board Opinion 25, which generally recognizes no compensation expense for employee stock options with exercise prices at the date of grant equal to or greater than the quoted market value of the underlying stock. The adoption of the fair value method under SFAS 123R could have a significant impact on the results of operations. SFAS 123R also requires the benefits of tax deductions in excess of recognized compensation expense to be reported as a cash flow from financing activities rather than a cash flow from operating activities. This requirement will reduce net cash flow from operations and increase net cash flow from financing activities in the

periods after adoption. The effective date is the first annual reporting period beginning after June 15, 2005. The Company is currently evaluating pricing models and the transition provisions of this standard and will begin expensing stock options in the first quarter of 2006.

**Item 3. Quantitative and Qualitative Disclosures About Market Risk**

Market risk is the risk of loss to future earnings, to fair values or to future cash flows that may result from changes in the price of financial instruments. The Company is exposed to financial market risks, including changes in foreign currency exchange rates, interest rates, equity prices and investment values. The Company occasionally uses derivative financial

instruments to protect against adverse currency movements related to significant foreign transactions. Exposure to market risks related to operating activities is managed through the Company's regular operating and financing activities.

### *Foreign Currency Risk*

The Company derives approximately 80% of its revenues from students outside the United States. This business is transacted through a network of international subsidiaries, generally in the local currency that is considered the functional currency of that foreign subsidiary. Expenses are also incurred in the foreign currencies to match revenues earned, which minimizes the Company's exchange rate exposure to operating margins. A hypothetical 10% adverse change in average foreign currency exchange rates would have decreased operating income and cash flows for the 2005 fiscal quarter by \$1.5 million. The Company generally views its investment in most of its foreign subsidiaries as long-term. The effects of a change in foreign currency exchange rates on the Company's net investment in foreign subsidiaries are reflected in other comprehensive income (loss) on the Company's balance sheets. A 10% depreciation in functional currencies relative to the U.S. dollar would have resulted in a decrease in the Company's net investment in foreign subsidiaries of approximately \$61.9 million at March 31, 2005.

The Company occasionally enters into foreign exchange forward contracts to reduce the earnings impact of non-functional currency denominated receivables. The primary business objective of the activity is to protect the U.S. dollar value of the Company's assets and future cash flows with respect to exchange rate fluctuations. At March 31, 2005, the Company had two forward contracts with expiration dates in 2005 and 2009, respectively. The change in fair value of the forward contract is recorded in other comprehensive income. To the extent that the changes in the underlying financial instruments are recorded in the income statement, the changes in the fair value of the derivatives are reclassified from other comprehensive income on the balance sheet to the income statement. Therefore, there is no net impact on earnings.

### *Interest Rate Risk*

The Company holds its cash and cash equivalents in high quality, short-term, fixed income securities. Consequently, the fair value of the Company's cash and cash equivalents would not be significantly impacted by either a 100 basis point increase or decrease in interest rates due to the short-term nature of the Company's portfolio. The Company's revolving credit facility bears interest at variable rates, and the fair value of this instrument is not significantly affected by changes in market interest rates. A 100 basis point decrease in interest rates would have decreased net interest income for the 2005 fiscal quarter by \$0.2 million.

The table below provides information about the Company's financial instruments that are sensitive to changes in interest rates. The table presents cash flows of weighted-average interest rates and principal payments for the following years ending March 31. The fair value of the debt below approximates book value.

#### **Total debt and due to shareholders**

**of acquired companies (in millions of US dollars):**

|                           | 2006          | 2007    | 2008    | 2009   | 2010   | Thereafter | Total   |
|---------------------------|---------------|---------|---------|--------|--------|------------|---------|
|                           | (in millions) |         |         |        |        |            |         |
| Fixed rate (Chilean peso) | \$ 13.2       | \$ 14.6 | \$ 19.1 | \$ 1.5 | \$ 0.1 | \$ 0.4     | \$ 48.9 |
| Average interest rate     | 5.9%          | 6.4%    | 6.4%    | 7.0%   | 8.5%   | 8.5%       |         |
| Fixed rate (Swiss franc)  | 0.6           | 0.4     | 1.9     | 2.4    | 2.4    | 19.9       | 27.6    |
| Average interest rate     | 2.8%          | 2.8%    | 2.8%    | 3.0%   | 3.3%   | 3.6%       |         |

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|                              |      |      |      |      |      |      |      |
|------------------------------|------|------|------|------|------|------|------|
| Fixed rate (Euro)            | 2.2  | 1.8  | 0.9  | 1.9  | 0.2  | 2.0  | 9.0  |
| Average interest rate        | 6.2% | 6.5% | 6.9% | 7.0% | 6.9% | 6.9% |      |
| Fixed rate (other)           | 1.0  | 0.6  | 3.6  |      |      |      | 5.2  |
| Average interest rate        | 5.8% | 6.0% | 6.0% |      |      |      |      |
| Variable rate (Chilean peso) | 8.3  | 0.2  | 0.2  | 0.2  | 0.2  | 1.1  | 10.2 |
| Average interest rate        | 5.0% | 3.5% | 3.5% | 3.5% | 3.5% | 3.5% |      |
| Variable rate (Swiss franc)  | 2.4  | 2.3  | 0.5  |      |      | 13.0 | 18.2 |
| Average interest rate        | 4.0% | 4.0% | 4.1% |      |      | 4.1% |      |
| Variable rate (Euro)         | 1.5  | 0.6  | 0.6  | 0.6  | 0.5  | 3.8  | 7.6  |
| Average interest rate        | 3.2% | 3.2% | 3.2% | 3.2% | 3.2% | 3.2% |      |
| Variable rate (Mexican Peso) | 0.9  | 0.9  | 0.9  | 0.9  | 1.7  |      | 5.3  |
| Average interest rate        | 3.4% | 2.3% | 2.8% | 3.2% | 1.7% |      |      |
| Variable rate (other)        | 1.1  | 1.0  | 2.0  | 2.0  | 2.0  | 0.5  | 8.6  |
| Average interest rate        | 4.0% | 3.7% | 3.5% | 3.7% | 4.3% | 6.5% |      |

The weighted-average interest rates for the variable debt were calculated using the interest rate in effect as of March 31, 2005 for each debt instrument.

*Investment Risk*

The Company has an investment portfolio that includes short-term investments in available-for-sale debt and equity securities. The Company's investment portfolio is exposed to risks arising from changes in these investment values.

All the potential impacts noted above are based on sensitivity analysis performed on the Company's financial position at March 31, 2005. Actual results may differ materially.

**Item 4. Controls and Procedures**



**Evaluation of Disclosure Controls and Procedures**

As of the end of the period covered by this report, the Company carried out an evaluation, under the supervision and with the participation of management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures. Based upon that evaluation, the Company's Chief Executive Officer and Chief Financial Officer have concluded that the Company's disclosure controls and procedures are effective at the reasonable assurance level.

**Changes in Internal Control over Financial Reporting**

There were no changes in internal control over financial reporting during the quarter ended March 31, 2005 that materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

***PART II - OTHER INFORMATION***

**Item 1. Legal Proceedings**

The Company is not currently a party to any litigation that management believes to be material.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

None.

**Item 3. Defaults Upon Senior Securities**

None.

**Item 4. Submission of Matters to a Vote of Security Holders**

No matters were submitted to a vote of security holders during the first quarter of 2005.

**Item 5. Other Information**

None.

**Item 6. Exhibits**

(a) Exhibits filed with this report:

| <b>Exhibit<br/>Number</b> | <b>Description</b>   |
|---------------------------|--|
| 31.01                     | Certification of Douglas L. Becker pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| 31.02                     | Certification of Sean R. Creamer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002   |
| 32.01                     | Certification of Douglas L. Becker pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |
| 32.02                     | Certification of Sean R. Creamer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002   |



**SIGNATURES**

Pursuant to the requirements of Section 13 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 on May 6, 2005.

LAUREATE EDUCATION, INC.  
(Registrant)

By:                   /s/ Sean R. Creamer  
                          Sean R. Creamer  
                          Senior Vice President and  
                          Chief Financial Officer