WHITMAN EDUCATION GROUP INC
Form 10-Q
November 07, 2001

FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

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

For the quarterly period ended September 30, 2001

Commission File Number 1-13722

WHITMAN EDUCATION GROUP, INC.
(Exact Name of Registrant as Specified in its Charter)

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

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes X No ______

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

As of October 31, 2001, there were 13,676,269 shares of common stock outstanding.

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

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

	September 30, 2001 (Unaudited)	March 31, 2001
Assets		
Current assets:		
Cash and cash equivalents	$ 3,796,386	$ 5,892,779
Accounts receivable, net	27,744,935	26,134,128
Inventories	1,485,527	1,516,439
Deferred income taxes	3,742,038	3,742,038
Other current assets	1,571,318	1,551,714
Total current assets	38,340,204	38,837,098
Property and equipment, net	10,972,336	11,727,583
Deposits and other assets, net	2,375,539	2,165,024

Goodwill, net....................	9,306,922	9,306,922
Total assets..............	$60,995,001	$62,036,627
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable..............	$ 1,337,743	$ 2,356,996
Accrued expenses..............	4,401,294	3,106,146
Current portion of capitalized lease obligations...........	1,847,556	1,859,195
Current portion of capital expenditure note payable....	1,191,667	541,667
Deferred tuition revenue......	23,453,988	22,500,137
Total current liabilities..	32,232,248	30,364,141
Capitalized lease obligations....	2,753,786	3,379,826
Capital expenditure note payable.	5,308,333	5,958,333
Line of credit...................	-	1,789,897
Commitments and contingencies		
Stockholders' equity:		
Common stock, no par value, authorized 100,000,000 shares; issued and outstanding 13,676,269 at September 30, 2001 and 13,642,472 shares at March 31, 2001................	22,778,163	22,748,613
Additional paid-in capital....	674,173	674,173
Accumulated deficit...........	(2,751,702)	(2,878,356)
Total stockholders' equity.	20,700,634	20,544,430
Total liabilities and stockholders' equity......	$60,995,001	$62,036,627

See accompanying notes to financial statements.

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

	For the Three Months Ended September 30,	
	2001	2000
Net revenues.....................	$21,384,299	$18,521,239

Costs and expenses:		
Instructional and educational support......................	14,036,833	12,959,896
Selling and promotional........	3,837,463	3,940,677
General and administrative.....	3,298,585	2,886,692
Total costs and expenses.........	21,172,881	19,787,265
Income (loss) from operations....	211,418	(1,266,026)
Other (income) and expenses:		
Interest expense...............	245,273	306,043
Interest income................	(83,233)	(75,089)
Income (loss) before income tax provision (benefit)............	49,378	(1,496,980)
Income tax provision (benefit)...	19,751	(596,397)
Net income (loss)................	$ 29,627	$ (900,583)
Net income (loss) per share:		
Basic and diluted..............	$ .00	$ (.07)
Weighted average common shares outstanding:		
Basic..........................	13,668,586	13,344,562
Diluted........................	14,050,324	13,344,562

See accompanying notes to financial statements.

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

	For the Six Months Ended September 30,	
	2001	2000
Net revenues.....................	$41,902,415	$37,400,669
Costs and expenses:		

Instructional and educational support	27,775,521	25,877,710
Selling and promotional	7,200,216	7,307,300
General and administrative	6,394,283	5,845,401
Total costs and expenses	41,370,020	39,030,411
Income (loss) from operations	532,395	(1,629,742)
Other (income) and expenses:		
Interest expense	513,986	528,500
Interest income	(192,681)	(159,657)
Income (loss) before income tax provision (benefit) and cumulative effect of change in accounting principle	211,090	(1,998,585)
Income tax provision (benefit)	84,436	(796,236)
Income (loss) before cumulative effect of change in accounting principle	126,654	(1,202,349)
Cumulative effect of change in accounting principle, net of tax	-	(563,971)
Net income (loss)	$ 126,654	$(1,766,320)
Basic and diluted net income (loss) per share:		
Income (loss) before cumulative effect of change in accounting principle	$ .01	$ (.09)
Cumulative effect of change in accounting principle, net of tax	-	(.04)
Net income (loss)	$ .01	$ (.13)
Weighted average common shares outstanding:		
Basic	13,658,737	13,355,811
Diluted	13,990,198	13,355,811

See accompanying notes to financial statements.

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

For the Six Months Ended

	September 30, 2001	September 30, 2000
Cash flows from operating activities:		
Net income (loss)................	$ 126,654	$(1,766,320)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization..	1,979,719	2,018,706
Bad debt expense...............	2,329,326	1,894,380
Deferred tax benefit...........	-	(1,172,217)
Changes in operating assets and liabilities:		
Accounts receivable..........	(3,940,133)	(3,403,965)
Inventories..................	30,912	256,473
Other current assets.........	(20,263)	(62)
Deposits and other assets....	(210,515)	97,548
Accounts payable.............	(1,019,253)	16,135
Accrued expenses.............	1,295,148	(1,860,246)
Deferred tuition revenue.....	953,851	1,955,339
Net cash provided by (used in) operating activities...........	1,525,446	(1,964,229)
Cash flows from investing activity:		
Purchase of property and equipment......................	(710,705)	(1,168,181)
Net cash used in investing activity.......................	(710,705)	(1,168,181)
Cash flows from financing activities:		
Proceeds from line of credit and long-term debt.................	8,868,314	11,729,179
Principal payments on line of credit, long-term debt and capitalized lease obligations	(11,808,998)	(13,582,775)
Repurchase of treasury shares....	-	(127,936)
Proceeds from exercise of options	29,550	-
Net cash used in financing activities.....................	(2,911,134)	(1,981,532)
Decrease in cash and cash equivalents....................	(2,096,393)	(5,113,942)
Cash and cash equivalents at beginning of period............	5,892,779	6,056,738
Cash and cash equivalents at end of period..................	$ 3,796,386	$ 942,796

Continued on following page.

See accompanying notes to financial statements.

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

	For the Six Months Ended September 30, 2001	For the Six Months Ended September 30, 2000
Supplemental disclosures of noncash financing and investing activities:		
Equipment acquired under capital leases.........................	$ 513,108	$ 1,030,426
Supplemental disclosures of cash flow information:		
Interest paid....................	$ 513,986	$ 528,500
Income taxes paid................	$ 5,000	$ -

See accompanying notes to financial statements.

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

1 General

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and, in the opinion of management, include all adjustments, which are of a normal recurring nature, necessary for a fair presentation of financial position and results of operations and cash flows for the periods presented. However, the financial statements do not include all information and footnotes required for a presentation in accordance with accounting principles generally accepted in the

United States of America. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and the notes thereto included or incorporated by reference in our Form 10-K for the fiscal year ended March 31, 2001. The results of operations for the interim periods are not necessarily indicative of the results of operations to be expected for the full year.

The accompanying financial statements include the accounts of Whitman Education Group, Inc., and its wholly-owned subsidiaries, Ultrasound Technical Services, Inc. ("Ultrasound Diagnostic Schools"), Sanford Brown College, Inc. ("Sanford-Brown College") and CTU Corporation ("Colorado Technical University"). All intercompany accounts and transactions have been eliminated. Hereafter, reference to "Whitman" shall include collectively Whitman Education Group, Inc. and its operating subsidiaries, Ultrasound Diagnostic Schools, Sanford-Brown College and Colorado Technical University.

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

2 Reclassification

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

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

3. Earnings Per Share

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

	Three Months Ended September 30,		Six Months Ended September 30,	
	2001	2000	2001	2000
Numerator:				
Income (loss) before cumulative effect of change in accounting principle...........	$ 29,627	$ (900,583)	$ 126,654	$(1,202,349)
Cumulative effect of change in accounting principle, net of				

tax................	-	-	-	(563,971)
Net income (loss)...	$ 29,627	$ (900,583)	$ 126,654	$(1,766,320)
Denominator:				
Denominator for basic earnings per share-weighted average shares....	13,668,586	13,344,562	13,658,737	13,355,811
Effect of dilutive securities:				
Employee stock options...........	381,738	-	331,461	-
Dilutive potential common shares.......	381,738	-	331,461	-
Denominator for diluted earnings per share-adjusted weighted-average shares and assumed conversions	14,050,324	13,344,562	13,990,198	13,355,811
Basic and diluted income (loss) before effect of change in accounting principle..........	$ .00	$ (.07)	$ .01	$ (.09)
Cumulative effect of change in accounting principle, net of tax................	-	-	-	(.04)
Basic and diluted net income (loss) per share.............	$ .00	$ (.07)	$ .01	$ (.13)

4. New Accounting Pronouncements

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

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

New Accounting Pronouncements - (Continued)

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

5. Goodwill

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

Whitman has elected to adopt the provisions of SFAS 141 and 142 effective April 1, 2001. Application of the nonamortization provision of SFAS 142 resulted in an increase in net income of $43,000 and $86,000, net of taxes, for the three and six months ended September 30, 2001, respectively. Pro forma net loss and net loss per basic and diluted share amounts, for the three and six months ended September 30, 2000, had SFAS 141 and 142 been applied retroactively, would have been approximately $858,000 and $0.07 and $1,680,000 and $0.13, respectively.

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

6. Income (Loss) Per Share

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

7. Comprehensive Income (Loss)

Whitman complies with the provisions of Statement of Financial Accounting

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

For the three months ended September 30, 2001 and September 30, 2000, comprehensive income was $29,627 and comprehensive loss was $900,583, respectively. For the six months ended September 30, 2001 and September 30, 2000, comprehensive income was $126,654 and comprehensive loss was $1,766,320, respectively.

8. Contingencies

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

9. Segment and Related Information

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

9. Segment and Related Information - (Continued)

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

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

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

	For the Three Months Ended September 30,		For the Six Months Ended September 30,	
	2001	2000	2001	2000
Net revenues:				
Associate Degree Division.....	$ 17,400,635	$ 14,761,363	$ 32,688,843	$28,946,478
University Degree Division.....	3,983,664	3,759,876	9,213,572	8,454,191
Total..........	$ 21,384,299	$ 18,521,239	$ 41,902,415	$37,400,669
Income (loss) before income tax provision (benefit) and cumulative effect of change in accounting principle:				
Associate Degree Division.....	$ 1,458,389	$ (507,241)	$ 1,527,244	$(1,105,830)
University Degree Division.....	(797,795)	(398,861)	(93,371)	221,190
Other........	(611,216)	(590,878)	(1,222,783)	(1,113,945)
Total........	$ 49,378	$ (1,496,980)	$ 211,090	$(1,998,585)

	September 30, 2001	March 31, 2001
Total assets:		
Associate Degree Division.....	$ 48,107,085	$ 48,327,713
University Degree Division.....	7,727,197	11,895,647
Other........	5,160,719	1,813,267

Total........	$ 60,995,001	$ 62,036,627

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

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

Results of Operations

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

	Three Months Ended September 30,		Six Months Ended September 30,	
	2001	2000	2001	2000
Net revenues................	100.0%	100.0%	100.0%	100.0%
Costs and expenses:				
Instructional and educational support.....	65.7	70.0	66.3	69.2

Selling and promotional...	17.9	21.2	17.2	19.5
General and administrative	15.4	15.6	15.2	15.6
Total costs and expenses....	99.0	106.8	98.7	104.3
Income (loss) from operations................	1.0	(6.8)	1.3	(4.3)
Other (income) and expenses:				
Interest expense..........	1.1	1.7	1.2	1.4
Interest income...........	(0.3)	(0.4)	(0.4)	(0.4)
Income (loss) before income tax provision (benefit) and cumulative effect of change in accounting principle.................	0.2	(8.1)	0.5	(5.3)
Income tax provision (benefit).................	0.1	(3.2)	0.2	(2.1)
Income (loss) before cumulative effect of change in accounting principle...	0.1	(4.9)	0.3	(3.2)
Cumulative effect of change in accounting principle, net of tax................	-	-	-	(1.5)
Net income (loss)...........	0.1%	(4.9)%	0.3%	(4.7)%

Three months ended September 30, 2001 compared to the three months ended September 30, 2000

Net revenues increased by $2.9 million, or 15.5%, to $21.4 million for the three months ended September 30, 2001 from $18.5 million for the three months ended September 30, 2000. This increase was primarily due to a 4.1% increase in average student enrollment and an increase in tuition rates.

The Associate Degree Division experienced a 5.6% increase in average student enrollment and the University Degree Division experienced a 0.4% increase in average student enrollment. The increase in student enrollment in the Associate Degree Division was primarily due to increased enrollment in the medical assisting and health information specialist programs offered by the Ultrasound Diagnostic Schools and the information technology programs offered at Sanford-Brown College. The increase in student enrollment was due to our improved marketing and admissions efforts which permitted us to increase the rate at which we converted leads to new student starts.

Results of Operations - (Continued)

Instructional and educational support expenses increased by approximately $1.0 million, or 8.3% to approximately $14.0 million for the three months ended September 30, 2001 from approximately $13.0 million for the three months ended September 30, 2000. As a percentage of net revenues, instructional and educational support expenses decreased to 65.7% for the three months ended

September 30, 2001 as compared to 70.0% for the three months ended September 30, 2000. The increase in instructional and educational support expenses was primarily due to an increase in payroll and related benefits for faculty, academic administrators and student support personnel to support the increase in enrollment. The decrease in instructional and educational support expenses as a percentage of net revenues was due to our ability to better leverage our instructional and education support expenses to support an increased revenue base.

Selling and promotional expenses decreased by $0.1 million, or 2.6%, to $3.8 million for the three months ended September 30, 2001 from $3.9 million for the three months ended September 30, 2000. As a percentage of net revenues, selling and promotional expenses decreased to 17.9% for the three months ended September 30, 2001 as compared to 21.2% for the three months ended September 30, 2000. The decrease in selling and promotional expenses as a percentage of net revenues was due to our improved marketing and admissions efforts that allowed us to maintain such expenses relatively unchanged while supporting a growth in revenues.

General and administrative expenses increased by $0.4 million, or 14.3%, to $3.3 million for the three months ended September 30, 2001 from $2.9 million for the three months ended September 30, 2000. As a percentage of net revenues, general and administrative expenses decreased to 15.4% for the three months ended September 30, 2001 as compared to 15.6% for the three months ended September 30, 2000. The increase in general and administrative expenses was primarily due to an increase in administrative payroll expenses to support the growth in student population and an increase in bad debt expense in the Associate Degree Division. For the three months ended September 30, 2001, bad debt expenses as a percentage of net revenues increased to 5.6% from 5.5% for the three months ended September 30, 2000. The increase in bad debt expense was primarily due to the increase in net revenues for the three months September 30, 2001 and to the negative impact of the October 2000 required adoption of the Department of Education's new methodology for calculating the amount of previously disbursed federal student financial aid that we must return to the federal government with respect to students who have since withdrawn from our schools. This new regulation increases the student's obligation to the school from which they have withdrawn and decreases the amount of student federal financial aid received by the school on behalf of the students who withdrew.

We reported income from operations of $0.2 million for the three months ended September 30, 2001 as compared to a loss from operations of $1.3 million for the three months ended September 30, 2000. This increase in profitability was primarily due to an increase in income from operations of $2.0 million in the Associate Degree Division.

We reported net income of $29,627 for the three months ended September 30, 2001 and a net loss of $0.9 million for the three months ended September 30, 2000. The increase in net income was primarily due to an increase in profitability in the Associate Degree Division.

Resutls of Operations - (Continued)

Six months ended September 30, 2001 compared to the six months ended September 30, 2000

Net revenues increased by $4.5 million, or 12.0%, to $41.9 million for the six months ended September 30, 2001 from $37.4 million for the six months ended September 30, 2000. This increase was primarily due to a 4.2% increase in average student enrollment and an increase in tuition rates.

The University Degree Division experienced a 5.5% increase in average student enrollment and the Associate Degree Division experienced a 3.6% increase in average student enrollment. The increase in student enrollment in the University Degree Division was primarily due to increased enrollment at Colorado Technical University's Colorado Springs campus. The increase in student enrollment in the Associate Degree Division was primarily due to increased enrollment in the medical assisting program and the health information specialist program offered by the Ultrasound Diagnostic Schools and the information technology programs offered at Sanford-Brown College. The increase in student enrollment was due to our improved marketing and admissions efforts which permitted us to increase the rate at which we converted leads to new student starts.

Instructional and educational support expenses increased by $1.9 million, or 7.3%, to $27.8 million for the six months ended September 30, 2001 from $25.9 million for the six months ended September 30, 2000. As a percentage of net revenues, instructional and educational support expenses decreased to 66.3% for the six months ended September 30, 2001 as compared to 69.2% for the six months ended September 30, 2000. The increase in instructional and educational support expenses was primarily due to an increase in payroll and related benefits for faculty, academic administrators and student support personnel to support the increase in enrollment. The decrease in instructional and educational support expenses as a percentage of net revenues was due to our ability to better leverage our instructional and educational support expenses to support an increased revenue base.

Selling and promotional expenses decreased by $0.1 million, or 1.5%, to $7.2 million for the six months ended September 30, 2001 from $7.3 million for the six months ended September 30, 2000. As a percentage of net revenues, selling and promotional expenses decreased to 17.2% for the six months ended September 30, 2001 as compared to 19.5% for the six months ended September 30, 2000. The decrease in selling and promotional expenses as a percentage of net revenues was due to our ability to maintain such expenses relatively unchanged while supporting a growth in revenues.

General and administrative expenses increased by $0.6 million, or 9.4%, to $6.4 million for the six months ended September 30, 2001 from $5.8 million for the six months ended September 30, 2000. As a percentage of net revenues, general and administrative expenses decreased to 15.2% for the six months ended September 30, 2001 as compared to 15.6% for the six months ended September 30, 2000. The increase in general and administrative expenses was primarily due to an increase in administrative payroll expenses to support the growth of the student population and an increase in bad debt expense in the Associate Degree Division. For the six months ended September 30, 2001, bad debt expense as a percentage of net revenues increased to 5.6% from 5.1% for the six months ended September 30, 2000. The increase in bad debt expense was primarily due to the negative impact of the October 2000 required adoption of the Department of Education's new methodology for calculating the amount of previously disbursed federal student financial aid that we must return to the federal government with respect to students who have since withdrawn from our schools. This new regulation increases the student's obligation to the school from which they have withdrawn and decreases the amount of student federal financial aid received by the school on behalf of the students who withdrew.

Results of Operations - (Continued)

We reported income from operations of $0.5 million for the six months ended September 30, 2001 as compared to a loss from operations of $1.6 million for the six months ended September 30, 2000. This increase in profitability was primarily due to an increase in income from operations of $2.6 million in the Associate Degree Division.

We reported net income of $0.1 million and a net loss of $1.8 million for the six months ended September 30, 2001 and 2000, respectively. The increase in net income was primarily due to an increase in profitability in the Associate Degree Division and the implementation of SEC Staff Accounting Bulletin No. 101 effective April 1, 2000, which resulted in a one-time charge after taxes of $0.6 million for the six months ended September 30, 2000.

Seasonality

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

Liquidity and Capital Resources

Cash and cash equivalents at September 30, 2001 and March 31, 2001 were $3.8 million and $5.9 million, respectively. Our working capital totaled $6.1 million at September 30, 2001 and $8.5 million at March 31, 2001. The decrease in cash and cash equivalents was primarily due to net repayment of long-term borrowings of $2.9 million.

Net cash of $1.5 million was provided by operating activities for the six months ended September 30, 2001 compared to net cash of $2.0 million used in operating activities for the six months ended September 30, 2000. The increase in cash provided by operating activities of $3.5 million was primarily due to an increase in net profits and an increase in accrued expenses.

Liquidity and Capital Resources - (Continued)

Net cash of $0.7 million and $1.2 million were used for investing activities for the six months ended September 30, 2001 and 2000, respectively. The decrease in cash used of $0.5 million was primarily due to a decrease in cash used for capital expenditures.

Net cash of $2.9 million and $2.0 million were used in financing activities for the six months ended September 30, 2001 and 2000 respectively. The increase in cash used was due to an increase of $1.1 million in net payments on long-term debt and capital lease obligations.

We have a $2.0 million line of credit which expires on June 30, 2002. At September 30, 2001, we had no outstanding balance under this facility and letters of credit outstanding of $0.2 million which reduced the amount available for borrowing. The amounts borrowed under this facility for the six months ended September 30, 2001 were primarily used for operations, repayment of debt and capital expenditures.

On November 5, 1999, our Board of Directors authorized the repurchase of up to $1.0 million of our common stock. Any repurchases may be made from time to time in the open market or through privately negotiated transactions. During the six months ended September 30, 2001, we did not repurchase any shares of our common stock. Since the inception of the repurchase program, we have repurchased 285,100 shares of our common stock for approximately $498,000. We anticipate that any further repurchases of shares will be funded through cash from operations.

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

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

New Accounting Pronouncements

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

Whitman has elected to adopt the provisions of SFAS 141 and 142 effective April 1, 2001. Application of the nonamortization provision of SFAS 142 resulted in an increase in net income of $43,000 and $86,000, net of taxes, for the three and six months ended September 30, 2001, respectively. Pro forma net loss and net loss per basic and diluted share amounts, for the three and six months ended September 30, 2000, had SFAS 141 and 142 been applied retroactively, would have been approximately $858,000 and $0.07 and $1,680,000 and $0.13, respectively.

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

PART II - OTHER INFORMATION

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

Annual Shareholders' Meeting

On August 9, 2001, Whitman held its annual meeting of shareholders. At the meeting, all of the nominees for director were elected by the vote set forth opposite their names in the table below:

Election of Directors	For	Withheld
Phillip Frost, M.D.	13,171,581	486,665
Richard C. Pfenniger, Jr.	13,170,681	487,565
Jack R. Borsting, Ph.D	13,171,581	486,665
Peter S. Knight	13,170,581	487,665
Lois F. Lipsett, Ph.D.	13,171,581	486,665
Richard M. Krasno, Ph.D.	13,170,481	487,765
Percy A. Pierre, Ph.D.	13,171,581	486,665
Neil Flanzraich	13,174,681	483,565
A. Marvin Strait, C.P.A.	13,171,581	486,665

In addition, the shareholders of Whitman approved an increase in the number of shares of our common stock reserved for issuance under the 1996 Whitman Education Group, Inc. Stock Option Plan from 2,500,000 shares to 3,250,000 shares. A total of 7,159,511 shares were voted in favor of the increase, 849,236 shares were voted against the increase, 11,629 shares abstained from the vote and 5,637,870 shares were not voted.

Item 5. Exhibits and Reports on Form 8-K

(a) Reports on Form 8-K

No reports on Form 8-K were filed by Whitman during the quarter ended September 30, 2001.

SIGNATURES

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

WHITMAN EDUCATION GROUP, INC.
(Registrant)

By: /s/ FERNANDO L. FERNANDEZ

Fernando L. Fernandez
Vice President - Finance, Chief Financial
Officer, Treasurer and Secretary

Date: November 7, 2001