FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

Filing Date: **1994-05-13** | Period of Report: **1994-03-31**
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NATIONAL EDUCATION CORP
CIK:**277821**| IRS No.: **952774428** | State of Incorp.:**DE** | Fiscal Year End: **1231**
Type: **10-Q** | Act: **34** | File No.: **001-06981** | Film No.: **94527756**
SIC: **8200** Educational services

Business Address
18400 VON KARMAN AVE
IRVINE CA 92715
7144749400

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 1994

Commission file number 1-6981

NATIONAL EDUCATION CORPORATION
(Exact name of registrant as specified in its charter)

Delaware	I.R.S. No. 95-2774428
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

18400 Von Karman Avenue, Irvine, California	92715-1594
(Address of principal executive offices)	(Zip Code)

(Registrant's telephone number, including area code) 714/474-9400

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 the issuer's classes of common stock, as of the latest practicable date:

29,503,583 common stock shares outstanding at April 30, 1994

NATIONAL EDUCATION CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

<TABLE>
Part I. FINANCIAL INFORMATION
Item 1. Financial Statements
<CAPTION>

(amounts in thousands, except per share amounts)	Three Months Ended March 31, 1994	Three Months Ended March 31, 1993
<S>	<C>	<C>
Tuition and Contract Revenues	$ 67,527	$ 72,852
Publishing Revenues	9,475	10,183
Net Revenues	77,002	83,035
Costs and Expenses		
Tuition and contract course materials, and service costs	34,861	39,753
Publishing costs and materials	4,440	4,452
Selling and promotion	27,978	29,889
General and administrative	12,168	12,548
Provision for doubtful accounts	748	1,425
Amortization of acquired intangible assets	430	1,541
Interest expense	1,452	1,468
Investment income	(569)	(669)
Other income	(95)	(357)
Loss before Income Tax Benefit and Minority Interest	(4,411)	(7,015)
Income tax benefit	(1,588)	(2,666)
Loss before Minority Interest	(2,823)	(4,349)
Minority interest in consolidated subsidiary	122	--
Net Loss	$ (2,945)	$ (4,349)

Primary Loss Per Share	$(.10)	$(.14)
	======	======
Fully Diluted Loss Per Share	$(.10)	$(.14)
	======	======
Weighted Average Number of Shares Outstanding		
Primary	29,661	30,208
Fully diluted	36,961	37,524

<FN>

Unaudited.
See accompanying notes and management's discussion and analysis.
</TABLE>

NATIONAL EDUCATION CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

<TABLE>
Part I. FINANCIAL INFORMATION
Item 1. Financial Statements (continued)
(dollars in thousands)
<CAPTION>

Assets	March 31, 1994	December 31, 1993	March 31, 1993
<S>	<C>	<C>	<C>
Current Assets			
Cash, including time deposits of $21,316, $32,855 and $48,998	$ 26,826	$ 38,546	$ 54,656
Investment securities:			
Held-to-maturity and available-for-sale securities	20,570	--	--
At lower of cost or market (market value of --, $17,964 and $13,632)	--	16,300	12,447
Receivables, net of allowance of $10,690, $10,437 and $9,967	38,902	54,012	41,026
Inventories and supplies	25,830	25,594	25,312
Prepaid and deferred marketing expenses	46,258	37,187	42,867
Other current assets	19,749	19,038	19,817
Total current assets	178,135	190,677	196,125
Contracts Receivable	698	2,212	5,762
Land, Buildings and Equipment, less accumulated depreciation of $121,302, $118,997 and $117,031	45,672	46,056	43,182
Acquired Intangible Assets, less accumulated amortization of $96,065, $95,635 and $80,406	51,766	48,497	59,853
Deferred Income Taxes	25,793	25,793	7,827
Other Assets	10,526	10,656	11,574
	$ 312,590	$ 323,891	$ 324,323
	=========	==========	==========

</TABLE>
<TABLE>

<S>	<C>	<C>	<C>
Liabilities and Stockholders' Equity			
Current Liabilities			
Accounts payable	$ 7,379	$ 8,635	$ 7,308
Accrued expenses	39,985	42,351	43,731
Accrued salaries and wages	9,033	8,726	10,619
Accrued restructuring expenses	8,271	12,282	--
Deferred contract revenues	15,929	16,425	23,401
Current portion of long-term debt	654	607	1,411
Accrued and deferred income taxes	1,665	3,149	1,142
Total current liabilities	82,916	92,175	87,612
Liabilities Payable After One Year			
Long-term debt, less current portion	2,411	2,556	3,068
Senior subordinated convertible debentures	20,000	20,000	20,000
Convertible subordinated debentures	57,494	57,494	57,494
Other noncurrent liabilities	8,176	7,989	9,771
	88,081	88,039	90,333
Minority Interest in Equity of Consolidated Subsidiary	8,168	8,046	--
Stockholders' Equity			
Preferred stock, $.10 par value; 5,000,000 shares authorized and unissued	--	--	--
Common stock, $.01 par value; 50,000,000 shares authorized; 30,195,041 shares, 30,092,810 shares and 30,032,686 shares issued	2,109	2,108	2,107
Additional paid-in capital	132,615	132,262	131,958

Retained earnings	10,736	13,681	18,951
Unrealized gain on available-for-sale securities, net of tax	943	--	--
Cumulative foreign exchange translation adjustment	(8,070)	(7,565)	(5,981)
Notes receivable under stock option plans	--	--	(107)
	138,333	140,486	146,928
Less common stock in treasury: 697,461, 689,315 and 120,415 shares	(4,908)	(4,855)	(550)
Total stockholders' equity	133,425	135,631	146,378
	$ 312,590	$ 323,891	$ 324,323

<FN>
Unaudited.
See accompanying notes and management's discussion and analysis.

</TABLE>

NATIONAL EDUCATION CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

<TABLE>
Part I. FINANCIAL INFORMATION
Item 1. Financial Statements (continued)
<CAPTION>

(dollars in thousands)	Three Months Ended March 31, 1994	1993
<S>	<C>	<C>
Cash Flows From Operating Activities:		
Net loss	$ (2,945)	$ (4,349)
Adjustments to reconcile net income (loss) to net cash provided by (used for) operating activities:		
Depreciation and amortization	2,716	3,461
Amortization of acquired intangible assets	430	1,541
Provision for doubtful accounts	748	1,425
(Gain)/loss on foreign currency exchange	(95)	(357)
Change in assets and liabilities:		
Receivables, net	16,395	22,009
Inventories and supplies	4	663
Prepaid and deferred marketing expenses	(9,238)	(6,742)
Accounts payable and accrued expenses	(3,940)	1,825
Accrued restructuring reserve	(3,647)	--
Accrued and deferred income taxes	(1,948)	(6,973)
Deferred contract revenues	(555)	(1,845)
Other	(1,023)	(328)
Net Cash From Operating Activities	(3,098)	10,330
Cash Flows For Investing Activities:		
Additions to land, building and equipment	(2,421)	(2,407)
Dispositions of land, buildings and equipment	98	--
Purchase of securities	(2,868)	(1,452)
Proceeds from the sale or redemption of securities	27	--
Acquisition of business, net of cash acquired	(3,870)	--
Net Cash For Investing Activities	(9,034)	(3,859)
Cash Flows From Financing Activities:		
Reductions in long-term debt	(98)	(155)
Minority interest in earnings of consolidated subsidiary	122	--
Common stock, stock options and related tax benefits	354	55
Purchase of common stock for treasury	(53)	(380)
Net Cash From Financing Activities	325	(480)
Effect of exchange rate changes on cash	87	196
Net change in cash and equivalents	(11,720)	6,187
Cash and equivalents at the beginning of the period	38,546	48,469
Cash and equivalents at the end of the period	$ 26,826	$ 54,656

<FN>
Unaudited.
See accompanying notes and management's discussion and analysis.
</TABLE>

Part I. FINANCIAL INFORMATION
Item 1. Financial Statements (continued)

Note 1 -- Summary of Accounting Policies

In the opinion of the Company, the accompanying unaudited consolidated financial statements contain all adjustments necessary to present fairly the financial position, results of operations and cash flows. Certain information and footnote disclosure normally included in financial statements prepared in accordance with generally accepted accounting principles has been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission. It is suggested that these financial statements be read in conjunction with the financial statements, accounting policies, and the notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 1993. The results of operations for interim periods are not necessarily indicative of the results of operations to be expected for the year.

A substantial portion of selling and promotion costs at National Education Training Group (NETG) and Steck-Vaughn are deferred and fully amortized within the calendar year to properly match the costs with revenues due to the seasonal nature of revenue realization. Due to the seasonal nature of NETG's and Steck-Vaughn's traditional selling cycle, selling and promotion costs are typically deferred in the first half of the year and amortized in the latter half of the year.

Certain prior year amounts have been reclassified to conform with the 1994 presentation.

Note 2 -- Business Combination

During the first quarter of 1994, the Company, through ICS Learning Systems, purchased the stock of MicroMash, Inc. for approximately $3,870,000, net of cash received. The transaction was accounted for as a purchase and the operating results of MicroMash have been included in the Company's consolidated financial statements since the effective date of acquisition. The net assets and operating results of MicroMash are not material to the consolidated financial statements of the Company.

Note 3 -- Earnings (Loss) Per Share

Primary earnings (loss) per share are computed based on the weighted average number of common shares outstanding during the respective periods, including dilutive stock options. Fully diluted earnings (loss) per share are computed based on the assumption that all dilutive convertible debentures have been converted to common stock, with a corresponding increase in net income to reflect a reduction in related interest expense, less applicable taxes.

Note 4 -- Investment Securities

Effective January 1, 1994, the Company adopted Statement of Financial Accounting Standards No. 115, Accounting for Certain Investments in Debt and Equity Securities (SFAS 115), which resulted in a change in the accounting for debt and equity securities held for investment purposes. Prior to January 1, 1994, the Company carried debt and

equity securities at the lower of aggregate cost or market value. In accordance with SFAS 115, the Company's debt and equity securities are now considered as either held-to-maturity or available-for-sale. Held-to-maturity securities represent those securities that the Company has both the positive intent and ability to hold to maturity and are carried at amortized cost. Available-for-sale securities represent those securities that do not meet the classification of held-to-maturity and are not actively traded. Unrealized gains and losses on these securities are excluded from earnings and are reported as a separate component of stockholders' equity, net of applicable taxes, until realized. Upon adoption of this standard, the Company recorded increases in available-for-sale securities of $1,429,000 and a related deferred tax liability of $486,000, resulting in a net increase of $943,000 in stockholders' equity. The amortized cost and estimated fair value of the securities are as follows:

March 31, 1994 (dollars in thousands)	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss	Fair Value
Tax exempt municipal bond funds held-to-maturity	$ 8,000	$ --	$ --	$ 8,000
Available-for-sale:				
Corporate income funds	6,660	467	(191)	6,936
Preferred stock	4,166	554	(163)	4,557
Other	315	762	--	1,077
Total available-for-sale	11,141	1,783	(354)	12,570
Total securities	$ 19,141	$ 1,783	$ (354)	$ 20,570

December 31, 1993 (dollars in thousands)	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss	Fair Value
Tax exempt municipal bond funds held-to-maturity	$ 5,500	$ --	$ --	$ 5,500
Available-for-sale:				
Corporate income funds	6,678	503	(123)	7,058
Preferred stock	3,797	581	(54)	4,324
Other	325	757	--	1,082
Total available-for-sale	10,800	1,841	(177)	12,464
Total securities	$ 16,300	$ 1,841	$ (177)	$ 17,964

Part I. FINANCIAL INFORMATION
Item 1. Financial Statements (continued)

Note 5 -- Statements of Cash Flows Supplementary Information

(dollars in thousands)	Three Months Ended March 31, 1994	1993
Cash Paid During the Period for:		
Interest expense	$ 1,101	$ 801
Income taxes, net of income tax refunds	810	3,541

NATIONAL EDUCATION CORPORATION AND SUBSIDIARIES

Part I. FINANCIAL INFORMATION
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

(dollars in thousands)	Three Months Ended March 31, 1994	1993	Variance	Percent Change
Net Revenues				
ICS Learning Systems	$ 28,285	$ 23,624	$ 4,661	19.7
Steck-Vaughn Publishing	9,475	10,183	(708)	(7.0)
Education Centers	28,203	35,940	(7,737)	(21.5)
NETG	11,039	13,288	(2,249)	(16.9)
Total Net Revenues	$ 77,002	$ 83,035	$ (6,033)	(7.3)

	1994	1993	Variance	Percent Change
Operating Income (Loss):				
ICS Learning Systems	$ 5,074	$ 4,012	$ 1,062	26.5
Steck-Vaughn Publishing	1,225	1,809	(584)	(32.3)
Education Centers	(3,340)	(2,083)	(1,257)	(60.3)
NETG	(4,548)	(7,578)	3,030	40.0
Total Segment Operating Loss	(1,589)	(3,840)	2,251	58.6
General corporate expenses	(2,034)	(2,733)	699	25.6
Interest expense	(1,452)	(1,468)	16	1.1
Investment income	569	669	(100)	(14.9)
Other income	95	357	(262)	(73.4)
Loss Before Income Tax Benefit and Minority Interest	(4,411)	(7,015)	2,604	37.1
Income tax benefit	(1,588)	(2,666)	(1,078)	(40.4)
Loss Before Minority Interest	(2,823)	(4,349)	1,526	35.1
Minority interest	122	--	(122)	--
Net Loss	$ (2,945)	$ (4,349)	$ 1,404	32.3

NATIONAL EDUCATION CORPORATION AND SUBSIDIARIES

Part I. FINANCIAL INFORMATION
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

Three Months Ended March 31, 1994 Compared to Three Months Ended March 31, 1993

Revenues of $77,002,000 for the three months ended March 31, 1994, were $6,033,000 or 7.3% lower than revenues of $83,035,000 in the prior year. Net loss for the period was $2,945,000 or $.10 per share compared to a loss of $4,349,000 or $.14 per share in the prior year.

The revenues and operating income at ICS Learning Systems increased significantly primarily due to strong revenue performance at the domestic operation. The international operations experienced a slight increase in revenues, while operating income decreased slightly. The revenue growth resulted primarily from the domestic operations which experienced a 10.8% increase in enrollments. The domestic enrollment increase was due primarily to the higher enrollment conversion from the expanded telesales efforts, which enroll students directly over the phone. International revenues increased slightly during 1994 due primarily to higher student populations at the beginning of the year, partially offset by a 9.9% decrease in enrollments which was primarily due to the timing of advertising spending. Overall operating margins increased due to domestic revenue growth and related decreases as a percentage of revenues in course materials and service costs, and selling and promotion expense. General and administrative expenses were higher due primarily to efforts to support the future growth of the operations. During the quarter, ICS acquired MicroMash, a leading provider of computer based interactive courses for accounting professionals and students. Through this acquisition, ICS is strategically positioned to aggressively pursue the continuing professional education marketplace.

Revenues and operating income decreased at Steck-Vaughn primarily due to the adverse winter weather conditions experienced in the Midwest, mid-Atlantic and Northeast regions of the United States during the first quarter of 1994. The weather conditions resulted in school shutdowns and canceled sales calls. Revenues in other parts of the country not affected by the adverse weather increased overall as compared to 1993. Despite the reduced revenues for the quarter, Steck-Vaughn has continued to expand its products for 1994 and delivery of the new titles is on schedule. Publishing costs and materials increased slightly as a percentage of revenues primarily due to the revenue shortfall and semi-fixed costs such as the newly expanded warehouse facilities. Selling and promotional costs were relatively flat as compared to the prior year; however, total selling and promotional spending (a portion of which is deferred, see Note 1) increased during the quarter as a result of the reorganization and expansion of the Steck-Vaughn sales force effective January 2, 1994. The reorganization resulted in the segmentation of the sales force into two groups. One group focuses on the elementary, junior high and library marketplaces while the other group focuses on the high school and adult education marketplaces. The new sales force structure is expected to enhance the exposure of Steck-Vaughn's rapidly expanding product offerings.

Part I. FINANCIAL INFORMATION
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

Education Centers revenues and operating results decreased during the first quarter of 1994 as compared to the prior year primarily due to the closure of 14 schools announced during 1993 and higher operational costs in the existing locations. The revenues and operating results of the closed schools have been recorded to accrued restructuring expense since the date of announced closure. Current year revenues and expenses exclude all closed school results; however, prior year results include the revenues and expenses of these schools. Course service costs increased as a percentage of revenues primarily due to increased training, staffing and benefit costs at the remaining schools. Provision for bad debt increased, excluding the closed schools, as a result of internal financing efforts provided to certain Education Center students who have experienced difficulty in obtaining access to student financial aid programs. Selling and promotional costs increased as a percentage of revenue primarily due to increased advertising and marketing efforts designed to attract additional student leads and enrollments. General and administrative costs increased slightly despite the closed schools primarily due to the continued quality improvement efforts initiated during 1993.

NETG revenues decreased for the quarter while operating results improved. The revenue decrease primarily resulted from lower contract backlog at the beginning of 1994 as compared to 1993. Overall, new orders and contract renewals increased during the past nine months; however, the decreasing contract backlog has more than offset the new orders and renewal increases. Operating results have improved during the first quarter due to cost reductions resulting from operating efficiencies throughout the organization. Course service costs decreased during 1994 primarily due to the lower revenues, reduced product development expenses and lower overall royalty rates paid to outside course developers. Selling and marketing costs decreased significantly primarily due to reductions in the sales force and lower commission costs resulting from lower revenues. General and administrative costs decreased primarily due to lower costs at the international operations which were partially offset by increased consulting costs at the domestic operations. The increased consulting costs primarily relate to the reengineering effort underway at NETG which has significantly contributed to the cost reductions discussed above.

Operating results of ICS and NETG foreign operations by geographic region experienced similar changes in revenues and income as discussed above. Foreign currentcy exchange gains, recorded to other income, of $95,000 were recorded during the quarter compared to gains of $357,000 in the prior year.

General corporate expenses decreased during the first quarter of 1994 primarily due to cost reductions, which were partially offset by costs associated with reengineering projects in the Company.

Liquidity and Capital Resources

The Company's primary sources of liquidity are cash, marketable securities and cash provided from operations, which includes funding for Education Centers' students under government financial aid programs partially provided through lending institutions. At March 31, 1994, the Company had $47,396,000 in cash and marketable securities, of which $13,696,000 was held in the account of Steck-Vaughn.

In December, 1993, the Company entered into a revolving bank credit agreement in the amount of $10,000,000 which matures on December 21, 1994. As of March 31, 1994, no amounts were outstanding under the revolving bank credit agreement.

Cash outflows from operating activities for the three months ended March 31, 1994 of $3,098,000 were $13,428,000 lower than the cash inflows from operating activities of $10,330,000 in the prior year. The decrease in cash flow is primarily attributable to changes in net receivables of $7,158,000 due to the diminishing contract receivables at NETG from long term contract revenues and reductions in accrued restructuring expenses at the Education Centers of $3,647,000.

In addition, changes in net cash flow for the three months ended March 31, 1994 as compared to the prior period were impacted by the acquisition of MicroMash in the net amount of $3,870,000.

The Company expects that cash, marketable securities, the revolving bank credit agreement and cash provided from operations, which includes to a certain extent, the continued funding of Education Centers' students under government student financial aid programs, will be sufficient to provide for planned working capital requirements, debt service and capital expenditures for the foreseeable future.

Based on the 1991 fiscal year default rate information for the Education Centers' 33 schools, three schools currently have single year default rates in excess of 40 percent and one school currently has cohort default rates for three consecutive fiscal years ended 1991 in excess of 30 percent. For the three months ended March 31, 1994, the revenues and operating income before Education Centers headquarters expense allocation for the three schools with single year default rates in excess of 40 percent are $2,057,000 and $271,000, respectively. The revenue and operating income before Education Centers headquarters expense allocation for the one school with default rates for the three consecutive fiscal years ending 1991 of 30 percent or more is $1,251,000 and $274,000, respectively. In addition to the above schools, 14 schools currently have cohort default rates for two consecutive years ended 1991 in excess of 25 percent. These 14 schools may no longer be eligible to participate in the Federal Family Education Loan Program (FFELP), formerly the Guaranteed Student Loan Programs, in the event the 1992 cohort default rates expected to be published in the third quarter of 1994 are 25 percent or higher. In the past, the Company has successfully appealed the cohort default rate calculations by the government; however, there can be no assurance that the Company will be able to successfully appeal these rates in the future. Upon publication of the fiscal year 1992 cohort default rate, the Company will continue to have opportunities to review and, if appropriate, appeal the cohort default rates published by the government.

In reauthorizing the Higher Education Act (HEA) in 1992, Congress enacted new and more stringent legislation governing institutions participating in FFELP. Under the legislation, the Department of Education was directed to issue regulations in the implementation of the legislation. A number of these regulations were announced on April 29, 1994. One example requires each state to establish a state postsecondary review entity (SPRE) to issue additional regulations regarding institutional eligibility and standards. Another regulation announced, more commonly known as the "85/15 Rule", applies only to proprietary institutions such as the Education Centers. Under this rule, a proprietary institution will be ineligible to participate in FFELP for at least one year in the event more than 85 percent of its applicable revenues is derived from FFELP. Management will continue to review the regulations to determine the impact, if any, these and other regulations will have on the financial condition of the Company.

Part II. OTHER INFORMATION
Item 6. Exhibits and Reports on Form 8-K

(a) See Exhibit Index following this Form 10-Q.

(b) No reports on Form 8-K were filed for the period for which this report is filed.

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.

NATIONAL EDUCATION CORPORATION

Date: May 12, 1994

By /s/ Keith K. Ogata
____
Keith K. Ogata
Vice President, Chief Financial Officer
and Treasurer

INDEX TO EXHIBITS
(Item 6(a))

<TABLE>
<CAPTION>

Exhibit Number	Description	Sequentially Numbered Page
<S>	<C>	<C>
10.1	National Education Corporation Retirement Plan (Restated as of January 1, 1989)(As Amended through January 1, 1992) (1)	*
10.2	National Education Corporation Retirement Plan Trust (2).	*
10.3	1981 Long-Term Incentive Plan (3).	*
10.4	1983 Stock Option Plan (4)	*

10.5	Advanced Systems, Incorporated 1984 Stock Option and Stock Appreciation Rights Plan (5).	*
10.6	1986 Stock Option and Incentive Plan, as amended (6).	*
10.7	1990 Stock Option and Incentive Plan (7)	*
10.8	1991 Directors' Stock Option Plan (8).	*
10.9	Rights Agreement, dated October 29, 1986, between National Education Corporation and Bank of America National Trust and Savings Association, Rights Agent (including exhibits thereto) (9)	*
10.10	Addendum No. 1 to Rights Agreement dated October 29, 1986 (10).	*
10.11	Indenture, dated as of May 15, 1986, between National Education Corporation and Continental Illinois National Bank and Trust Company of Chicago, as Trustee (11)	*
10.12	Tripartite Agreement Dated as of May 31, 1990, among National Education Corporation, Continental Bank as Resigning Trustee, and IBJ Schroder Bank & Trust Company as Successor Trustee (12)	*

</TABLE>

<TABLE>
<CAPTION>

Exhibit Number	Description	Sequentially Numbered Page
<S>	<C>	<C>
10.13	National Education Corporation Purchase Agreement, Senior Subordinated Convertible Debentures, dated as of February 15, 1991 (13).	*
10.14	National Education Corporation Supplemental Executive Retirement Plan, as amended (14)	*
10.15	Supplemental Benefit Plan for Non-Employee Directors (15)	*
10.16	Retirement Agreement with J.J. McNaughton (16)	*
10.17	Intercompany Agreement Between National Education Corporation and Steck-Vaughn Publishing Corporation dated June 30, 1993 (17). . . .	*
10.18	Tax Sharing Agreement Between National Education Corporation and Its Direct and Indirect Corporate Subsidiaries dated January 1, 1993 (18)	*
10.19	Asset Purchase Agreement Between Steck-Vaughn Company and Creative Edge Inc. dated as of April 26, 1993 (19).	*
10.20	$10,000,000 Credit Agreement Between National Education Corporation and Bankers Trust Company as Agent, dated as of December 22, 1993 (the "Credit Agreement") (Confidential treatment under Rule 24b-2 has been requested for portions of this exhibit.)(20)	*
10.21	First Amendment to Credit Agreement dated as of December 31, 1993 (21).	*
10.22	Second Amendment to Credit Agreement, dated as of April 15, 1994 (Confidential treatment under Rule 24b-2 has been requested for portions of this exhibit.) (22).	
11.1	Calculation of Primary Earnings Per Share (22)	
11.2	Calculation of Fully Diluted Earnings Per	

Share (22) . . . .

</TABLE>

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* incorporated by reference from a previously filed document

(1) Incorporated by reference to Exhibit 10.1 filed with the Annual Report on Form 10-K for the year ended December 31, 1992, filed March 22, 1993.

(2) Incorporated by reference to Exhibit 10(b) filed with Registration Statement on Form S-8 (No. 2-86904), filed October 3, 1983.

(3) Incorporated by reference to Exhibit 15 filed with Registration Statement on Form S-8 (No. 2-71650), filed April 7, 1981.

(4) Incorporated by reference to Exhibit D filed with the 1983 Proxy Statement dated April 25, 1983, for the annual meeting dated May 19, 1983.

(5) Incorporated by reference to Exhibit 10.15 filed with the Annual Report on Form 10-K for the year ended December 31, 1987, filed March 30, 1988.

(6) Incorporated by reference to Exhibit 10.17 filed with the Annual Report on Form 10-K for the year ended December 31, 1990, filed April 1, 1991.

(7) Incorporated by reference to Exhibit "A" filed with the 1990 Proxy Statement, filed April 2, 1990.

(8) Incorporated by reference to Exhibit "A" filed with the 1991 Proxy Statement, filed April 1, 1991.

(9) Incorporated by reference to Exhibit 4.1 filed with Form 8-K Current Report, dated October 29, 1986, filed October 30, 1986.

(10) Incorporated by reference to Exhibit 4 filed with the Annual Report on Form 10-K for the year ended December 31, 1987, filed March 30, 1988.

(11) Incorporated by reference to Exhibit 4.2 filed with Amendment No. 1 to Registration Statement on Form S-3 (No. 33-5552), filed May 16, 1986.

(12) Incorporated by reference to Exhibit 4 filed with the Form 10-Q Quarterly Report for the quarterly period ended June 30, 1990.

(13) Incorporated by reference to Exhibit 4 filed with Form 8-K Current Report, dated February 20, 1991, filed February 27, 1991.

(14) Incorporated by reference to Exhibit 10.17 filed with the Annual Report on Form 10-K for the year ended December 31, 1991, filed April 1, 1992.

(15) Incorporated by reference to Exhibit 10.18 filed with the Annual Report on Form 10-K for the year ended December 31, 1991, filed April 1, 1992.

(16) Incorporated by reference to Exhibit 10.19 filed with the Annual Report on Form 10-K for the year ended December 31, 1991, filed April 1, 1992.

(17) Incorporated by reference to Exhibit 10.8 filed with Amendment No. 1 to the Steck-Vaughn Publishing Corporation Registration Statement on Form S-1, File No. 33-62334, filed June 17, 1993.

(18) Incorporated by reference to Exhibit 10.9 filed with Amendment No. 1 to the Steck-Vaughn Publishing Corporation Registration Statement on Form S-1, File No. 33-62334, filed June 17, 1993.

(19) Incorporated by reference to Exhibit 10.13 filed with the Steck-Vaughn Publishing Corporation Registration Statement on Form S-1, File No. 33-62334, filed May 7, 1993.

(20) Incorporated by reference to Exhibit 10.20 filed with the Annual Report on Form 10-K for the year ended December 31, 1993, filed March 28, 1994.

(21) Incorporated by reference to Exhibit 10.21 filed with the Annual Report on Form 10-K for the year ended December 31, 1993, filed March 28, 1994.

(22) Filed herewith.

EXHIBIT 10.22

* PORTIONS OMITTED PURSUANT TO RULE 24b-2 UNDER THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED, AND FILED SEPARATELY WITH THE COMMISSION IN A REQUEST FOR CONFIDENTIAL TREATMENT

NATIONAL EDUCATION CORPORATION

SECOND AMENDMENT
TO CREDIT AGREEMENT

This SECOND AMENDMENT TO CREDIT AGREEMENT (this "Amendment") is dated as of April 15, 1994 and entered into by and among National Education Corporation, a Delaware corporation (the "Borrower"), the Bank listed on the signature pages hereof (the "Bank"), and Bankers Trust Company, as agent for the Bank (the "Agent") and, for purposes of Sections 2 and 3 hereof, the Subsidiaries of the Borrower listed on the signature pages hereof, and is made with reference to that certain Credit Agreement dated as of December 22, 1993 by and among the Borrower, the Bank and the Agent, as amended by that certain First Amendment to Credit Agreement dated as of December 31, 1993 (as so amended, the "Credit Agreement"). Capitalized terms used herein without definition shall have the same meanings herein as set forth in the Credit Agreement.

RECITALS

WHEREAS, the Borrower and the Bank have agreed, upon the terms and conditions set forth herein, that certain terms and conditions of the Credit Agreement should be amended; and

WHEREAS, each of the Subsidiaries of the Borrower party to the Subsidiary Guaranty ("Subsidiary Guarantors") or the Subordination Agreement ("Subordinated Subsidiaries") desires to acknowledge and consent to this Amendment and to reaffirm the continuing effectiveness of the Subsidiary Guaranty or the Subordination Agreement, as the case may be;

NOW, THEREFORE, in consideration of the foregoing and the mutual covenants and agreements set forth herein, the parties hereto agree as follows:

Section 1. AMENDMENTS TO THE CREDIT AGREEMENT

1.1 Amendment to Section 1.01: Defined Terms. Section

1.01 of the Credit Agreement is hereby amended by adding thereto the following defined term in the appropriate alphabetical order:

"'Convertible Notes' shall mean the Borrower's Senior Subordinated Convertible Notes due 2006 in an aggregate original principal amount of $20,000,000."

1.2 Amendments to Section 8.01: Liens. Section 8.01 of the Credit Agreement is hereby amended by:

(i) deleting the term "and" from the end of clause (xi) thereof;

(ii) replacing the period at the end of clause (xii) thereof with "; and"; and

(iii) adding thereto the following clause in the appropriate numerical order:

"(xiii) Liens on personal property and assets of SV securing Indebtedness permitted under clause (xiii) of Section 8.05."

1.3 Amendment to Section 8.05: Indebtedness. Section 8.05 of the Credit Agreement is hereby amended by replacing the term "$3,000,000" in clause (xii) thereof with the term "$4,500,000".

1.4 Amendments to Section 8.09: Ratio of Liabilities to Net Worth. Section 8.09 of the Credit Agreement is hereby amended by:

(i) adding the following proviso immediately before the colon therein:

"; provided that, for purposes of this Section, any addition to the equity capital of the Borrower resulting from the conversion of the Convertible Notes shall be deemed to constitute Indebtedness for the purposes of determining Consolidated Liabilities and Adjusted Consolidated Net Worth"; and

(ii) deleting the table therefrom and substituting there for the following table:

"Quarter Ended Ratio

December 31, 1993	1.26:1.00
March 31, 1994	1.45:1.00
June 30, 1994	*
September 30, 1994	*
December 31, 1994	* ".

* OMITTED PURSUANT TO RULE 24b-2 UNDER THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED, AND FILED SEPARATELY WITH THE COMMISSION IN A REQUEST FOR CONFIDENTIAL TREATMENT

1.5 Amendments to section 8.11: Minimum Consolidated Net Worth. Section 8.11 of the Credit Agreement is hereby amended by:

(i) adding the following proviso immediately before the colon therein:

"; provided that, for purposes of this Section, any addition to the equity capital of the Borrower resulting from the conversion of the convertible Notes shall be deemed to constitute Indebtedness for the purposes of determining Adjusted Consolidated Net Worth"; and

(ii) deleting the table therefrom and substituting there for the following table:

"Quarter Ended	Amount
December 31, 1993	$142,608,000
March 31, 1994	137,000,000
June 30, 1994	*
September 30, 1994	*
December 31, 1994	* ".

* OMITTED PURSUANT TO RULE 24b-2 UNDER THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED, AND FILED SEPARATELY WITH THE COMMISSION IN A REQUEST FOR CONFIDENTIAL TREATMENT

Section 2. REPRESENTATIONS AND WARRANTIES

In order to induce the Bank to enter into this Amendment and to amend the provisions of the Credit Agreement in the manner provided herein, the Borrower, and each Subsidiary party to the Subsidiary Guaranty and/or the Subordination Agreement with respect to itself only, represents and warrants to the Bank that the following statements are true, correct and complete:

A. Corporate Power and Authority. The Borrower has all requisite corporate power and authority to enter into this Amendment and to carry out the transactions contemplated by, and perform its obligations under, the Credit Agreement as amended by this Amendment (the "Amended Agreement"). Each such Subsidiary has all requisite corporate power and authority to enter into this Amendment and to be bound hereby.

B. Authorization of Agreements. The execution and delivery of this Amendment by the Borrower and each such Subsidiary and the performance of the Amended Agreement by the Borrower have been duly authorized by all necessary corporate action by the Borrower and each such Subsidiary, as the case may be.

C. No Conflict. The execution and delivery by the Borrower and each such Subsidiary of this Amendment and the performance by the Borrower of the Amended Agreement do not and will not (i) violate any provision of any law, rule or regulation applicable to the Borrower or any of its Subsidiaries, the Certificate of Incorporation or Bylaws of the Borrower or any of its Subsidiaries or any order, judgment or decree of any court or other agency of government binding on the Borrower or any of its Subsidiaries, (ii) conflict with, result in a breach of or constitute (with due notice or lapse of time or both) a default under, or require the consent of any Person under, any mortgage, deed of trust, credit agreement, loan agreement or any other agreement contract or instrument to which the Borrower or any of its Subsidiaries a party or by which it or any of its property or assets is bound or to which it may be subject or (iii) result in or require the creation or imposition of any Lien upon any of their properties or assets.

D. Governmental Consents. The execution and delivery by the Borrower and each such Subsidiary of this Amendment and the performance by the Borrower of the Amended Agreement do not and will not require any registration with, consent or approval of, or notice to, or other action to, with or by, any Federal, state or other governmental authority or regulatory body or other Person.

E. Binding Obligation. This Amendment and, in the case of the Borrower, the Amended Agreement, are the legally valid and binding obligation(s) of the Borrower and each such Subsidiary, enforceable against the Borrower or such Subsidiary in accordance with its terms, except as enforcement may be limited by bankruptcy, insolvency, reorganization, moratorium or other similar laws relating to or limiting creditors' rights generally or by equitable principles relating to enforceability.

F. Incorporation of Representations and Warranties From Credit Agreement. The representations and warranties contained in Section 6 of the Credit Agreement are and will be true, correct and complete in all material respects on and as of the date hereof to the same extent as though made on and as of that date, except to the extent that such representations and warranties specifically relate to an earlier date, in which case they are true, correct and complete in all material respects as of such earlier date.

G. Absence of Default. No event has occurred and is continuing or will result from the consummation of the transactions contemplated by this Amendment which would constitute an Event of Default or a Default.

Section 3. ACKNOWLEDGEMENT AND CONSENT

Each of the undersigned Subsidiaries of the Borrower acknowledges that it has reviewed the terms and provisions of the Credit Agreement and this Amendment and consents to the amendment of the Credit Agreement effected pursuant to this Amendment. Each of the undersigned Subsidiary Guarantors hereby confirms that the Subsidiary Guaranty will continue to guaranty to the fullest extent possible the payment and performance of all Guarantied Obligations (as defined in the Subsidiary Guaranty), including, without limitation, the payment and performance of all Obligations of the Borrower now or hereafter existing under or in respect of the Amended Agreement. Each of the undersigned Subordinated Subsidiaries hereby confirms that the Subordination Agreement will continue to subordinate the Subordinated Debt (as defined in the Subordination Agreement) to Senior Obligations (as defined in the Subordination Agreement), including, without limitation, all obligations of the Borrower now or hereafter existing to make payments under or in respect of the Amended Agreement.

Each Subsidiary Guarantor acknowledges and agrees that the Subsidiary Guaranty shall continue in full force and effect and that all of its obligations thereunder shall be valid and enforceable and shall not be impaired or affected by the execution or effectiveness of this Amendment. Each Subsidiary Guarantor represents and warrants that all representations and warranties contained in the Subsidiary Guaranty are true, correct and complete in all material respects on and as of the date hereof to the same extent as though made on and as of that date except to the extent that such representations and warranties specifically relate to an earlier date, in which case they are true, correct and complete in all material respects as of such earlier date.

Each Subordinated Subsidiary acknowledges and agrees that the Subordination Agreement shall continue in full force and effect and that all of its obligations thereunder shall be valid and enforceable and shall not be impaired or affected by the execution or effectiveness of this Amendment. Each Subordinated Subsidiary represents and warrants that all representations and warranties contained in the Subordination Agreement are true, correct and complete in all material respects on and as of the date hereof to the same extent as though made on and as of that date except to the extent that such representations and warranties specifically relate to an earlier date, in which case they are true, correct and complete in all material respects as of such earlier date.

Each of the undersigned Subsidiaries of the Borrower acknowledges and agrees that (i) notwithstanding the conditions to effectiveness set forth in this Amendment, such Subsidiary is not required by the terms of the Credit Agreement or any other Credit Document to consent to the amendments to the Credit Agreement effected pursuant to this Amendment and (ii) nothing in the Credit Agreement, this Amendment or any other Credit Document shall be deemed to require the consent of any such Subsidiary to any future amendments to the Credit Agreement.

Section 4. MISCELLANEOUS

A. Reference to and Effect on the Credit Agreement and the Other Credit Documents.

(i) On and after the date hereof, each reference in the Credit Agreement to "this Agreement", "hereunder", "hereof", "herein" or words of like import referring to the Credit Agreement, and each reference in the other Credit Documents to the "Credit Agreement", "thereunder", "thereof" or words of like import referring to the Credit Agreement shall mean and be a reference to the Credit Agreement as amended by this Amendment.

(ii) Except as specifically amended or modified by this Amendment, the Credit Agreement and the other Credit Documents shall remain in full force and effect and are hereby ratified and confirmed.

(iii) The execution, delivery and performance of this Amendment shall not, except as expressly provided herein, constitute a waiver of any provision of, or operate as a waiver of any right, power or remedy of the Agent or any Bank under, the Credit Agreement or any of the other Credit Documents.

B. Fees and Expenses. The Borrower acknowledges that all costs, fees and expenses as described in subsection 11.01 of the Credit Agreement incurred by the Agent and its counsel with respect to this Amendment and the documents and transactions contemplated hereby shall be for the account of the Borrower.

C. Execution in Counterparts; Effectiveness. This Amendment may be executed in any number of counterparts, and by different parties hereto in separate counterparts, each of which when so executed and delivered shall be deemed an original, but all such counterparts taken together shall constitute but one and the same instrument. This Amendment shall become effective as of the date hereof upon the execution of a counterpart hereof by the Borrower, each Subsidiary of the Borrower party to the Subsidiary Guaranty or the Subordination Agreement and the Bank and the delivery of such counterparts to the Agent.

D. Headings. Section and subsection headings in this Amendment are included herein for convenience of reference only and shall not constitute a part of this Amendment for any other purpose or be given any substantive effect.

E. Applicable Law. THIS AMENDMENT AND THE RIGHTS AND OBLIGATIONS OF THE PARTIES HERETO AND ALL OTHER ASPECTS HEREOF SHALL BE DEEMED TO BE MADE UNDER, SHALL BE GOVERNED BY, AND SHALL BE CONSTRUED AND ENFORCED IN ACCORDANCE WITH, THE INTERNAL LAWS OF THE STATE OF NEW YORK.

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be executed as of the date first above written by their respective officers thereunto duly authorized.

NATIONAL EDUCATION CORPORATION

By: /s/ KEITH K. OGATA
____
Title: VICE PRESIDENT

NETG HOLDING, INC.
NATIONAL EDUCATION TRAINING GROUP, INC.,
SPECTRUM INTERACTIVE INCORPORATED
NATIONAL EDUCATION CENTERs, INC.
ICS LEARNING SYSTEMS, INC.
INTERNATIONAL CORRESPONDENCE SCHOOLS, INC.,
as the subsidiary Guarantors

By: /s/ KEITH K. OGATA

____

Title: VICE PRESIDENT

STECK-VAUGHN PUBLISHING CORPORATION
NATIONAL EDUCATION INTERNATIONAL CORP.
NATIONAL EDUCATION CREDIT CORPORATION
NATIONAL EDUCATION FOREIGN SALES CORP.
NATIONAL EDUCATION PAYROLL CORP.
NEC SUB. INC
NATIONAL EDUCATION CENTERS, INC.
ICS LEARNING SYSTEMS, INC.
NETG HOLDING, INC.,
as the Subordinated subsidiaries

By: /s/ KEITH K. OGATA

____

Title: VICE PRESIDENT

BANKERS TRUST COMPANY, as the Bank and as the Agent

By: /s/ MARY JO JOLLY

____

Title: ASSISTANT VICE PRESIDENT

EXHIBIT 11.1

NATIONAL EDUCATION CORPORATION AND SUBSIDIARIES

CALCULATION OF PRIMARY EARNINGS PER SHARE
(Amounts in thousands, except per share amounts)

	Three Months Ended March 31, 1994	Three Months Ended March 31, 1993
NET INCOME (LOSS)	$ (2,945)	$ (4,349)
COMMON STOCK:		
Shares outstanding from beginning of period	29,405	29,968
Pro rata shares:		
Stock options exercised	76	2
Shares purchased for treasury, from date of purchase	(4)	--
Assumed exercise of stock options, using treasury stock method	180	238
Shares issued for restricted stock	--	--
Weighted average number of shares outstanding	29,657	30,208
PRIMARY EARNINGS (LOSS) PER SHARE	$(.10)	$(.02)

EXHIBIT 11.2

NATIONAL EDUCATION CORPORATION AND SUBSIDIARIES

CALCULATION OF FULLY DILUTED EARNINGS PER SHARE
(Amounts in thousands, except per share amounts)

<TABLE>
<CAPTION>

	Three Months Ended March 31,	
	1994	1993
<S>	<C>	<C>
NET INCOME (LOSS)	$ (2,945)	$ (4,349)
Add back debenture interest, debt discount and expense amortization, less applicable taxes	811	811
NET INCOME (LOSS) FOR FULLY DILUTED COMPUTATION	$ (2,134)	$ (3,538)
<S>	<C>	<C>
COMMON STOCK:		
Shares outstanding from beginning of period	29,405	29,968
Stock options exercised	76	2
Shares purchased for treasury, from date of purchase	(4)	--
Assumed exercise of stock options, using treasury stock method	180	238
Shares issued for restricted stock	--	--
Assumed conversion of subordinated debentures, from the latter of the beginning of the period or the date of issue	7,300	7,300
Weighted average number of shares outstanding	36,957	37,508
FULLY DILUTED EARNINGS (LOSS) PER SHARE	$(.10)	$(.14)

</TABLE>