

CORINTHIAN COLLEGES INC

Form 10-Q

November 09, 2007

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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

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**FORM 10-Q**

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**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
**FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2007**

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 0-25283

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**CORINTHIAN COLLEGES, INC.**

(Exact name of registrant as specified in its charter)

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Delaware  
(State or other jurisdiction of

33-0717312  
(I.R.S. Employer

Incorporation or organization)

Identification No.)

6 Hutton Centre Drive, Suite 400, Santa Ana, California

(Address of principal executive offices)

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92707

(Zip Code)

(714) 427-3000

(Registrant's telephone number, including area code)

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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 a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer  Non-accelerated filer

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

At November 1, 2007, there were 84,817,869 shares of Common Stock of the Registrant outstanding.

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**EXPLANATORY NOTE**

During the fourth quarter of 2007, the Company decided to divest all of its CDI campuses outside of the province of Ontario, Canada, as well as the WyoTech Boston campus (the Sale Group). The Company will continue to operate and invest in the campuses within the Sale Group until the schools are sold. Each of the campuses within the Sale Group is available for immediate sale in its present condition, and we expect to complete the sale of these schools in fiscal 2008. We expect to have no significant continuing involvement with the entities after they have been sold. The information contained throughout this document is presented on a continuing operations basis, unless otherwise stated.

**Table of Contents****PART I FINANCIAL INFORMATION****Item 1. Financial Statements**

CORINTHIAN COLLEGES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

	September 30, 2007 (Unaudited)	June 30, 2007 (In thousands)
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 20,861	\$ 99,789
Marketable securities	1,200	15,000
Accounts receivable, net of allowance for doubtful accounts of \$27,899 and \$24,142 at September 30, 2007 and June 30, 2007, respectively	87,922	75,289
Student notes receivable, net of allowance for doubtful accounts of \$1,252 and \$953 at September 30, 2007 and June 30, 2007, respectively	4,439	3,785
Deferred income taxes	27,328	25,756
Prepaid expenses and other current assets	38,218	44,620
Assets held for sale	11,213	10,640
Total current assets	191,181	274,879
PROPERTY AND EQUIPMENT, net	218,057	216,626
<b>OTHER ASSETS:</b>		
Goodwill, net	192,993	189,954
Other intangibles, net	41,268	41,583
Student notes receivable, net of allowance for doubtful accounts of \$1,734 and \$2,497 at September 30, 2007 and June 30, 2007, respectively	8,809	6,140
Deposits and other assets	4,997	4,753
<b>TOTAL ASSETS</b>	<b>\$ 657,305</b>	<b>\$ 733,935</b>
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable	\$ 40,475	\$ 38,802
Accrued compensation and related liabilities	27,676	34,818
Accrued expenses	17,108	17,835
Prepaid tuition	52,883	49,770
Current portion of capital lease obligations	390	373
Current portion of long-term debt		11
Liabilities held for sale	11,905	9,630
Total current liabilities	150,437	151,239
LONG-TERM CAPITAL LEASE OBLIGATIONS, net of current portion	15,032	15,141
LONG-TERM DEBT, net of current portion	33,136	112,913
DEFERRED INCOME TAXES	8,183	28,298
OTHER LIABILITIES	60,940	40,922
COMMITMENTS AND CONTINGENCIES		

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<b>STOCKHOLDERS EQUITY:</b>		
Common Stock, \$0.0001 par value:		
Common Stock, 120,000 shares authorized, 86,976 shares issued and 84,719 shares outstanding at September 30, 2007 and 86,773 shares issued and 84,516 shares outstanding at June 30, 2007	9	9
Additional paid-in capital	164,309	160,312
Treasury stock, at cost, 2,257 shares	(31,368)	(31,368)
Retained earnings	255,124	255,594
Accumulated other comprehensive income	1,503	875
<b>TOTAL STOCKHOLDERS EQUITY</b>	<b>389,577</b>	<b>385,422</b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS EQUITY</b>	<b>\$ 657,305</b>	<b>\$ 733,935</b>

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

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## CORINTHIAN COLLEGES, INC. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

	<b>Three Months Ended September 30,</b>	
	<b>2007</b>	<b>2006</b>
	<b>(In thousands, except per share data)</b>	
	<b>(Unaudited)</b>	<b>(Unaudited)</b>
NET REVENUES	\$ 247,521	\$ 222,089
OPERATING EXPENSES:		
Educational services	147,070	130,216
General and administrative	26,221	27,477
Marketing and admissions	67,838	61,327
Total operating expenses	241,129	219,020
INCOME FROM OPERATIONS	6,392	3,069
Interest (income)	(855)	(1,491)
Interest expense	571	758
Other (income) expense, net	(647)	265
INCOME FROM CONTINUING OPERATIONS BEFORE PROVISION FOR INCOME TAXES	7,323	3,537
Provision for income taxes	3,143	1,200
INCOME FROM CONTINUING OPERATIONS	4,180	2,337
LOSS FROM DISCONTINUED OPERATIONS, net of tax	(2,227)	(937)
NET INCOME	\$ 1,953	\$ 1,400
INCOME PER SHARE - BASIC:		
Income from continuing operations	\$ 0.05	\$ 0.03
Loss from discontinued operations	(0.03)	(0.01)
Net income	\$ 0.02	\$ 0.02
INCOME PER SHARE - DILUTED:		
Income from continuing operations	\$ 0.05	\$ 0.03
Loss from discontinued operations	(0.03)	(0.01)
Net income	\$ 0.02	\$ 0.02
Weighted average number of common shares outstanding:		
Basic	84,629	86,309
Diluted	85,868	87,540

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

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CORINTHIAN COLLEGES, INC. AND SUBSIDIARIES  
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
 FROM CONTINUING AND DISCONTINUED OPERATIONS

	<b>Three Months Ended</b>	
	<b>September 30,</b>	
	<b>2007</b>	<b>2006</b>
	<b>(In thousands)</b>	
	<b>(Unaudited)</b>	
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income	\$ 1,953	\$ 1,400
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Depreciation and amortization	10,851	10,200
Deferred taxes		
Loss on disposal of assets	415	108
Stock-based compensation	2,382	2,189
Changes in assets and liabilities, net of effects from acquisitions:		
Accounts receivable, net	(12,611)	(11,653)
Student notes receivable, net	(3,323)	(76)
Prepaid expenses and other assets	6,423	2,362
Accounts payable	2,274	4,457
Accrued expenses, compensation and related benefits	(11,149)	(3,599)
Prepaid tuition	3,087	11,312
Other long-term liabilities	(1,315)	1,161
Net cash (used in) provided by operating activities	(1,013)	17,861
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Capital expenditures	(11,645)	(16,941)
Change in restricted cash		10
Proceeds from sale of assets	238	103
Purchase of / investments in marketable securities	(37,875)	(57,325)
Sales of / disposition of marketable securities	51,675	35,325
Net cash provided by (used in) investing activities	2,393	(38,828)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Principal repayments on capital lease obligations and long-term debt	(81,984)	(120)
Proceeds from exercise of stock options and Employee Stock Purchase Plan	1,980	589
Net cash (used in) provided by financing activities	(80,004)	469
EFFECTS OF EXCHANGE RATE CHANGES ON CASH		(304)
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(78,928)</b>	<b>(20,498)</b>
CASH AND CASH EQUIVALENTS, beginning of period	99,789	36,795
<b>CASH AND CASH EQUIVALENTS, end of period</b>	<b>\$ 20,861</b>	<b>\$ 16,297</b>

## SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:

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Cash paid (received) during the period for:			
Income taxes	\$	37	\$ (284)
Interest	\$	795	\$ 508

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



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CORINTHIAN COLLEGES, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2007

**Note 1 The Company and Basis of Presentation**

During the fourth quarter of 2007, the Company decided to divest all of its CDI campuses outside of the province of Ontario, Canada, as well as the WyoTech Boston campus (the Sale Group). The Company will continue to operate and invest in the campuses within the Sale Group until the schools are sold. Each of the campuses within the Sale Group is available for immediate sale in its present condition, and we expect to complete the sale of these schools in fiscal 2008. We expect to have no significant continuing involvement with the entities after they have been sold. The information contained throughout this document is presented on a continuing operations basis, unless otherwise stated.

Corinthian Colleges, Inc. (the Company) is one of the largest post-secondary career education companies in North America. As of September 30, 2007, the Company had more than 67,400 students and operated 93 schools in 24 states and 17 colleges in the province of Ontario, Canada. The Company offers a variety of diploma programs and associate's, bachelor's and master's degrees, concentrating on programs in allied health, criminal justice, business, vehicle repair and maintenance, construction trades and information technology. The Company also offers exclusively online degrees, primarily in business and criminal justice.

The accompanying unaudited condensed consolidated financial statements have been prepared by the Company pursuant to the rules and regulations of the Securities and Exchange Commission and in accordance with U.S. generally accepted accounting principles. Certain information and footnote disclosures normally included in annual financial statements have been omitted or condensed pursuant to such regulations. The Company believes the disclosures included in the unaudited condensed consolidated financial statements, when read in conjunction with the June 30, 2007 consolidated financial statements of the Company included in the Company's 2007 Annual Report on Form 10-K and notes thereto, are adequate to make the information presented not materially misleading. In management's opinion, the unaudited condensed consolidated financial statements reflect all adjustments, consisting solely of normal recurring adjustments, necessary to summarize fairly the consolidated financial position, results of operations, and cash flows for such periods. The results of operations for the three months ended September 30, 2007 are not necessarily indicative of the results that may be expected for the fiscal year ending June 30, 2008.

The unaudited condensed consolidated financial statements as of September 30, 2007 and for the three months ended September 30, 2007 and 2006 and the audited condensed consolidated financial statements as of June 30, 2007 include the accounts of the Company and its subsidiaries that it directly or indirectly controls through majority ownership. All significant intercompany balances and transactions have been eliminated in consolidation.

The financial position and results of operations of the Company's Canadian subsidiaries are measured using the local currency as the functional currency. Assets and liabilities of the Canadian subsidiaries are translated to U.S. dollars using exchange rates in effect at the balance sheet dates. Income and expense items are translated at monthly average rates of exchange. The resultant translation adjustments are included as a component of Stockholders' Equity designated as accumulated other comprehensive income. Exchange gains and losses arising from transactions denominated in a currency other than the functional currency are immediately included in earnings.

**Note 2 Weighted Average Number of Common Shares Outstanding**

Basic net income per share is calculated by dividing net income by the weighted average number of common shares outstanding for the period. Diluted net income per share reflects the assumed conversion of all dilutive securities, consisting of stock options and restricted stock units.

The table below reflects the calculation of the weighted average number of common shares outstanding used in computing basic and diluted net income per common share for the three months ended September 30, 2007 and 2006 (in thousands):

**Three Months Ended**

**September 30,  
2007      2006**

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Basic common shares outstanding	84,629	86,309
Effects of dilutive securities:		
Stock options and restricted stock units	1,239	1,231
Diluted common shares outstanding	85,868	87,540

During the three-month period ended September 30, 2007, the Company issued approximately 0.2 million shares of common stock related to the Company's employee stock purchase plan and exercise of stock options.

**Table of Contents***Share Repurchase*

On October 31, 2006, the Company's Board of Directors approved a share repurchase of up to \$50.0 million of the Company's common stock. From November 2006 through May 2007, the Company purchased 2,256,638 shares at a total cost of \$31.4 million (an average share price of \$13.90 per share).

**Note 3 Discontinued Operations**

During the fourth quarter of 2007, the Company decided to divest all of its CDI campuses outside of the province of Ontario, Canada, as well as the WyoTech Boston campus (the Sale Group). The Company will continue to operate and invest in the campuses within the Sale Group until the schools are sold. Each of the campuses within the Sale Group is available for immediate sale in its present condition, and we expect to complete the sale of the campuses in fiscal 2008. We expect to have no significant continuing involvement with the schools after they have been sold.

We believe that the campuses within the Sale Group meet the criteria necessary for such entities to qualify as assets held for sale under the specific provision of SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets (SFAS 144). Accordingly, the results of operations of the campuses within the Sale Group are reflected as discontinued operations in our consolidated statements of income for all periods presented. Additionally, in accordance with SFAS 144, as we expect to complete the Sale Plan within a year, assets and liabilities of the campuses within the Sale Group are reflected as current assets held for sale and current liabilities held for sale on our consolidated balance sheets as of September 30, 2007 and June 30, 2007.

Under SFAS 144, the net assets held for sale are required to be recorded on the balance sheet at estimated fair value, less costs to sell. Accordingly, during the fourth quarter of 2007, we recorded a charge of approximately \$5.4 million, net of income tax benefit of \$0.3 million, to reduce the carrying value of the net assets of our campuses held for sale to estimated fair value, less costs to sell, as of June 30, 2007 (primarily related to the impairment of goodwill in the amount of \$5.0 million for the divested CDI Schools).

During the first quarter of 2008, the Company recognized and paid severance costs of approximately \$1.1 million, related to employees terminated as a result of the pending divestitures.

Combined summary results of operations for the Sale Group reflected as discontinued operations in our consolidated statements of operations for the three months ended September 30, 2007 and 2006 (in thousands), are as follows:

	<b>Three Months Ended</b>	
	<b>September 30,</b>	<b>2006</b>
	<b>(in thousands)</b>	
<b>Total Discontinued Operations</b>		
Net revenue	\$ 8,377	\$ 9,712
Loss before income tax, including estimated loss on disposal	(3,443)	(1,224)
Income tax benefit	(1,216)	(287)
<b>Total net loss from discontinued operations</b>	<b>\$ (2,227)</b>	<b>\$ (937)</b>

Combined summary of assets and liabilities of the Sale Group at September 30, 2007 and June 30, 2007, are as follows:

<b>September 30,</b>	<b>June 30,</b>
<b>2007</b>	<b>2007</b>
<b>(Unaudited)</b>	

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(in thousands)

<b>Assets</b>		
<b>Current Assets:</b>		
Accounts receivable, net of allowance for doubtful accounts of \$1,467 and \$1,320 at September 30, 2007 and June 30, 2007, respectively	\$ 705	\$ 557
Student notes receivable, net of allowance for doubtful accounts of \$0 and \$2 at September 30, 2007 and June 30, 2007, respectively	11	11
Prepays & other current	1,215	1,080
<b>Total Current Assets</b>	<b>1,931</b>	<b>1,648</b>
Property, and equipment, net	5,498	5,446
Goodwill	2,025	1,907
Other Intangibles, net	1,698	1,599
Deposits & other assets	61	40
<b>Total Assets</b>	<b>\$ 11,213</b>	<b>\$ 10,640</b>

<b>Liabilities</b>		
<b>Current Liabilities:</b>		
Accounts payable	\$ 1,045	\$ 343
Accrued compensation and related liabilities	1,644	1,023
Accrued expenses	277	219
Prepaid tuition	5,899	5,072
Other liabilities	3,040	2,973
<b>Total Current Liabilities</b>	<b>11,905</b>	<b>9,630</b>

**Table of Contents****Note 4 Marketable Securities**

Statement of Financial Accounting Standards (SFAS) No. 115, Accounting For Certain Debt and Equity Securities requires that all applicable investments be classified as trading securities, available-for-sale securities or held-to-maturity securities. The Company does not currently have any trading securities or held-to-maturity securities.

Securities classified as available-for-sale may be sold in response to changes in interest rates, liquidity needs and for other purposes. Available-for-sale securities are carried at fair value and include all debt and equity securities not classified as held-to-maturity or trading. Unrealized holding gains and losses for available-for-sale securities are excluded from earnings and reported, net of any income tax effect, as a separate component of stockholders' equity. Realized gains and losses for securities classified as available-for-sale are reported in earnings based on the adjusted cost of the specific security sold. At September 30, 2007 and June 30, 2007, there were no unrealized gains or losses on available-for-sale securities.

**Note 5 Comprehensive Income (from continued and discontinued operations)**

Comprehensive income (loss) is defined as the total of net income (loss) and all changes that impact stockholders' equity other than transactions involving stockholders' ownership interests. The following table details the components of comprehensive income for the three month period ended September 30, 2007 and 2006 (in thousands):

	<b>Three Months Ended</b>	
	<b>September 30, 2007</b>	<b>2006</b>
Net income	\$ 1,953	\$ 1,400
Foreign currency translation adjustments	611	(8)
Other postemployment benefit adjustment	17	
Comprehensive income (from continued and discontinued operations)	\$ 2,581	\$ 1,392

**Table of Contents****Note 6 Impairment, Facility Closing, and Severance Charges**

The table below summarizes the liability and activity for the three month period ended September 30, 2007, relating to the impairment, facility closing and severance charges (in thousands):

	Severance		
	and Benefits	Facility Related	Total
Balance at June 30, 2007	\$ 477	\$ 3,626	\$ 4,103
Charges			
Adjustments			
Cash payments	(80)	(580)	(660)
Balance at September 30, 2007 (Unaudited)	\$ 397	\$ 3,046	\$ 3,443

**Note 7 Segment Information**

The Company's operations are aggregated into a single reportable operating segment based upon similar economic and operating characteristics as well as similar markets. The Company's operations are also subject to similar regulatory environments. The Company conducts its operations in the U.S. and Canada. Revenues and long-lived assets by geographic area are as follows (in thousands):

	Three Months Ended	
	September 30, 2007	2006
Revenues from unaffiliated customers		
U.S. operations	\$ 232,590	\$ 208,882
Canadian operations	14,931	13,207
Consolidated	\$ 247,521	\$ 222,089
	September 30, 2007 (Unaudited)	June 30, 2007
Long-lived assets		
U.S. operations	\$ 408,002	\$ 391,713
Canadian operations	\$ 58,122	67,343
Consolidated	\$ 466,124	\$ 459,056

No one customer accounted for more than 10% of the Company's consolidated revenues. Revenues are attributed to regions based on the location of customers.

**Note 8 Commitments and Contingencies***Legal Matters*

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In the ordinary conduct of its business, the Company and its colleges are subject to lawsuits, investigations and claims, including, but not limited to, claims involving students, graduates and employment-related matters. When the Company is aware of a claim or potential claim, it assesses the likelihood of any loss or exposure. If it is probable that a loss will result and the amount of the loss can be reasonably estimated, the Company records a liability for the loss. If the loss is not probable or the amount of the loss cannot be reasonably estimated, the Company discloses the nature of the specific claim if the likelihood of a potential loss is reasonably possible and the amount involved is material. There can be no assurance that the ultimate outcome of any of the matters disclosed below will not have a material adverse effect on the Company's financial condition or results of operations.

On March 8, 2004, the Company was served with two virtually identical putative class action complaints entitled *Travis v. Rhodes Colleges, Inc., Corinthian Colleges, Inc., and Florida Metropolitan University*, and *Satz v. Rhodes Colleges, Inc., Corinthian Colleges, Inc., and Florida Metropolitan University*. Additionally, on April 15, 2005, the Company received another complaint entitled *Alan Alvarez, et al. v. Rhodes Colleges, Inc., Corinthian Colleges, Inc., and Florida Metropolitan University, Inc.* The *Alvarez* first amended and supplemental complaint named ninety-nine plaintiffs. Additionally, the court in the *Alvarez* case granted the plaintiffs' motion to add an additional seven plaintiffs to the first amended and supplemental complaint. The named plaintiffs in these lawsuits are current and former students in the Company's Florida Metropolitan University (FMU) campuses in Florida and online. The plaintiffs allege that FMU concealed the fact that it is not accredited by the Commission on Colleges of the Southern Association of Colleges and Schools and that FMU credits are not transferable to other institutions. The *Satz* and *Travis* plaintiffs seek recovery of compensatory damages and attorneys' fees under common law and Florida's Deceptive and Unfair Trade Practices Act for themselves and all similarly situated people. The *Alvarez* plaintiffs seek damages on behalf of themselves under common law and Florida's Deceptive and Unfair Trade Practices Act. The arbitrator in the *Satz* case found for the Company on all counts in an award on the Company's motion to dismiss. The arbitrator also found that Satz breached his agreement with FMU by filing in court rather than seeking arbitration and is therefore responsible to pay FMU's damages associated with compelling the action to arbitration. The arbitrator also declared FMU the prevailing party for purposes of the Deceptive and Unfair Trade Practices Act. The Company is continuing to pursue its remedies against Satz related to these findings. Additionally, the Company affirmatively filed an arbitration action against Travis seeking damages for breach of her obligations to file in arbitration rather than in court and declaratory relief regarding her allegations. The arbitrator ruled against the Company in its affirmative claims against Travis. The Company has filed motions to compel arbitration in *Alvarez*, and the *Travis* court compelled that case to arbitration. Travis has appealed the order compelling the matter to arbitration, and, therefore, no arbitration has yet been conducted regarding Travis's claims against the Company. The Company believes the plaintiffs' claims in all of these matters are without merit and will vigorously defend itself, Rhodes Colleges, Inc., and FMU against these allegations.

From July 8, 2004 through August 31, 2004, various putative class action lawsuits were filed in the United States District Court for the Central District of California by certain alleged purchasers of the Company's common stock against the Company and certain of its current and former executive officers, David Moore, Dennis Beal, Paul St. Pierre and Anthony Digiovanni. On November 5, 2004, a lead plaintiff was chosen and these cases were consolidated into one action. A first consolidated amended complaint was filed in February 2005. The consolidated case is purportedly brought on behalf of all persons who acquired shares of the Company's common stock during a specified class period from August 27, 2003 through July 30, 2004. The consolidated complaint alleges that, in violation of Section 10(b) of the Securities Exchange Act of 1934 (the Act) and Rule 10b-5 promulgated thereunder by the Securities and Exchange Commission, the defendants made certain material misrepresentations and failed to disclose certain material facts about the condition of the Company's business and prospects during the putative class

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period, causing the plaintiffs to purchase the Company's common stock at artificially inflated prices. The plaintiffs further claim that Messrs. Moore, Beal, St. Pierre and Digiovanni are liable under Section 20(a) of the Act. The plaintiffs seek unspecified amounts in damages, interest, and costs, as well as other relief. On April 24, 2006, the Court granted the Company's motion to dismiss the plaintiff's third consolidated amended complaint with prejudice. The plaintiff has appealed the dismissal to the Federal Ninth Circuit Court of Appeals. The Company intends to continue vigorously defending itself and its current and former officers in this matter.

Between July 21, 2004 and July 23, 2004, two derivative actions captioned *Collet, Derivatively on behalf of Corinthian Colleges, Inc., v. David Moore, et al.*, and *Davila, Derivatively on behalf of Corinthian Colleges, Inc., v. David Moore, et al.*, were filed in the Orange County California Superior Court against David Moore, Dennis Beal, Dennis Devereux, Beth Wilson, Mary Barry, Stan Mortensen, Bruce Deyong, Loyal Wilson, Jack Massimino, Linda Skladany, Paul St. Pierre, Michael Berry, and Anthony Digiovanni, and against the Company as a nominal defendant. Each individual defendant is one of the Company's current or former officers and/or directors. The lawsuits allege breach of fiduciary duty, abuse of control, gross mismanagement, waste of corporate assets, unjust enrichment, and violations of the California corporations' code, essentially based on the same allegations of conduct complained of in the initial federal securities class action complaints. The *Collet* and *Davila* cases have now been consolidated into one action. A memorandum of understanding was executed by the parties resolving the *Collet* and *Davila* cases, pending court approval, for an immaterial amount of attorneys' fees to be paid by the Company's directors' and officers' insurance carrier to the plaintiffs' lawyers, and with the Company agreeing to certain corporate governance matters.

In February 2005, the Company received a putative class action demand in arbitration entitled *Michelle Sanchez v. Corinthian Colleges, Inc.*, filed by a former diagnostic medical sonography student from the Company's Bryman College campus in West Los Angeles, alleging violations of the California Education Code and of California's Business and Professions Code Section 17200. The Company believes the demand is without merit and intends to vigorously defend itself against these allegations.

In January 2006, the Company was served with a lawsuit captioned *Mercidita Garcia, et al. v. Corinthian Colleges, Inc.*, filed by fourteen current or former surgical technologist students from the Company's Parks College located in Thornton, Colorado. The counsel for the plaintiffs claimed to represent additional former surgical technologist students at this campus. The plaintiffs alleged negligent/intentional misrepresentations/omissions and violations of the state consumer protection act regarding alleged misrepresentations about the program. The complaint did not seek certification as a class action. The Company removed this case to federal court and, on October 20, 2006, the court dismissed the complaint and compelled the plaintiffs to binding arbitration. In August 2007, approximately 30 former students filed claims in arbitration regarding the foregoing matters. The Company intends to vigorously defend itself in this matter.

On August 2, 2006, the Company was served with two virtually identical derivative complaints captioned *Adolf, Derivatively on behalf of nominal defendant Corinthian Colleges, Inc., v. David Moore, et al.*, and *Gunkel, Derivatively on behalf of nominal defendant Corinthian Colleges, Inc., v. David Moore, et al.* The complaints were filed in the Orange County California Superior Court against David Moore, Paul St. Pierre, Frank McCord, Dennis Devereux, Beth Wilson, Dennis Beal, Jack Massimino, Linda Skladany, and Hank Adler. Each individual defendant is one of the Company's current or former officers and/or directors. The lawsuits allege breach of fiduciary duty and unjust enrichment by the individual defendants related to the Company's past option grant practices. Three other similar derivative actions have been filed in Federal District Court for the Central District of California, one entitled *Pfeiffer, derivatively on behalf of Corinthian Colleges, Inc., v. David Moore, et al.*, the second entitled *M. Alvin Edwards, III, derivatively on behalf of Corinthian Colleges, Inc., v. David Moore, et al.* and the third entitled *Lori Close, derivatively on behalf of Corinthian Colleges Inc., v. David Moore et al.* The federal cases allege violation of the Securities and Exchange Act of 1934, violation of the California Corporations Code, unjust enrichment and return of unearned compensation, and breach of fiduciary duties, based on similar factual allegations to the *Adolph* and *Gunkel* cases. The *Pfeiffer* case is filed against the same defendants as the two state court cases. The *Close* and *Edwards* cases name the following individual defendants, all of whom are current and former directors and officers of the Company: Dave Moore, Jack Massimino, Ken Ord, William Murtagh,



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William Buchanan, Robert Owen, Stan Mortensen, Mark Pelesh, Mary Barry, Beth Wilson, Dennis Devereux, Paul St. Pierre, Alice Kane, Terry Hartshorn, Linda Skladany, Hank Adler, Loyal Wilson and Mike Berry. The federal derivative actions have since been consolidated in federal court; the state derivative actions have also been consolidated in state court.

The Company is aware of several state attorneys general who have opened inquiries or investigations into arrangements between lenders and institutions of higher education. In this regard, the Company has received requests for information from the Attorneys General of the states of Illinois, Arizona and Nevada regarding our relationships with student loan providers. The Company has also received a similar request from the U.S. Department of Education. The Company believes these governmental authorities are conducting wide-ranging inquiries of student lending practices generally, and that the Company is not the sole recipient of this type of information request. The Company has responded, or is in the process of responding, to these information requests and intends to cooperate fully with these inquiries.

On October 3, 2007, the Company was notified that a *qui tam* action had been filed in the U.S. District Court for the Central District of California by a former employee (the relator) on behalf of himself and the federal government. The case is captioned *United States of America, ex rel. Steven Fuhr v. Corinthian Colleges, Inc.* The *qui tam* action alleges violations of the False Claims Act, 31 U.S.C. § 3729-33, by the Company for allegedly causing false claims to be paid, or allegedly using false statements to get claims paid or approved by the federal government, because of alleged Company violations of the Higher Education Act regarding the manner in which admissions personnel are compensated. The federal government has the right to intervene in, or take over, a *qui tam* action. If the government declines to intervene, the relator may elect to pursue the litigation on behalf of the federal government and, if he is successful, receive a portion of the federal government's recovery. The Company believes its compensation practices regarding admissions personnel have been in compliance with applicable law and intends to defend itself vigorously in this matter.

On October 17, 2007, the Office of the Inspector General of the United States Department of Education, assisted by other federal and local authorities, served a search warrant at the Company's National School of Technology campus in Fort Lauderdale, Florida. The search warrant sought a broad range of documents and records. The Company has not been informed as to why this action has been taken. The Company provided documents in response to the search warrant and intends to cooperate with the government's investigation.

In addition to the legal proceedings and other matters described above, the Company is or may be a party to pending or threatened lawsuits related primarily to services currently or formerly performed by the Company. Such cases and claims raise difficult and complex factual and legal issues and are subject to many uncertainties and complexities, including, but not limited to, the facts and circumstances of each particular case or claim, the jurisdiction in which each suit is brought, and differences in applicable law.

As of September 30, 2007, the Company had established aggregate reserves for all of the matters disclosed above, as well as for those additional matters where the liabilities are probable and losses estimable but for which the Company does not believe the matters are reasonably likely to have a material impact on the results of operations or financial condition of the Company, which are immaterial to the Company's financial position. The Company regularly evaluates the reasonableness of its accruals and makes any adjustments considered necessary. Due to the uncertainty of the outcome of litigation and claims, the Company is unable to make a reasonable estimate of the upper end of the range of potential liability for these matters. Upon resolution of any pending legal matters, the Company may incur charges in excess of presently established reserves. While any such charge could have a material adverse impact on the Company's results of operations in the period in which it is recorded or paid, management does not believe that any such charge would have a material adverse effect on the Company's financial position or liquidity.

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**Note 9 New Accounting Pronouncements**

Effective July 1, 2007, we adopted FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes (FIN 48). FIN 48 prescribes a more-likely-than-not threshold for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. This interpretation also provides guidance on derecognition of income tax assets and liabilities, classification of current and deferred income tax assets and liabilities, accounting for interest and penalties associated with tax positions, accounting for income taxes in interim periods and income tax disclosures. The cumulative effects of applying this interpretation have been recorded as a decrease of \$2.4 million to retained earnings, an increase of \$21.1 million to the net deferred income tax asset and an increase of \$23.5 million to income taxes payable as of July 1, 2007.

In conjunction with the adoption of FIN 48, we have classified uncertain tax positions as non-current income tax liabilities unless expected to be paid in one year. We also began reporting income tax-related interest income in Income tax expense in our Condensed Consolidated Statement of Operations. In prior periods, such interest income was reported in other income. Penalties and tax-related interest expense are reported as a component of income tax expense. During the first quarter of fiscal 2008, the Company recognized income tax-related interest of \$0.3 million in accordance with FIN 48. As of September 30 and July 1, 2007, the total amount of accrued income tax-related interest and penalties included in the Condensed Consolidated Statement of Financial Position was \$4.1 million and \$3.6 million, respectively.

As of September 30 and July 1, 2007, we were subject to examination in the U.S. federal tax jurisdiction for the fiscal 2004-2006 tax years. We were also subject to examination in various state and foreign jurisdictions for the 2003-2006 tax years, none of which were individually material. We are in the final stages of an IRS examination for the fiscal 2004 through 2006 years.

As of September 30 and July 1, 2007, the total amount of unrecognized tax benefits was \$21.2 million of which \$1.1 million would affect the effective tax rate, if recognized. The amount of unrecognized tax benefits that are expected to be settled within the next twelve months with the IRS is approximately \$0.9 million.

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

This Quarterly Report on Form 10-Q contains statements that may constitute forward-looking statements as defined by the U.S. Private Securities Litigation Reform Act of 1995. Such forward-looking statements can be identified by the use of forward-looking terminology such as believes, estimates, anticipates, continues, contemplates, expects, may, will, could, should or would, or the negatives thereof. These statements are based on the intent, belief or expectation of the Company as of the date of this Quarterly Report. Any such forward-looking statements are not guarantees of future performance and may involve risks and uncertainties that are outside the control of the Company. Results may differ materially from the forward-looking statements contained herein as a result of many factors, including: risks associated with variability in the expense and effectiveness of the Company's advertising and promotional efforts; unfavorable changes in the cost or availability of alternative loans for our students; the uncertain future impact of the new student information system; increased competition; the Company's effectiveness in its regulatory compliance efforts; the outcome of the OIG/ED investigation; the outcome of pending litigation against the Company; the outcome of ongoing reviews and inquiries by accrediting, state and federal agencies; general labor market conditions; and other factors, including those discussed under the headings entitled Governmental Regulation and Financial Aid and Risks Related to Our Business in the Company's Annual Report on Form 10-K (File No. 0-25283) and other documents periodically filed with the Securities and Exchange Commission. The Company expressly disclaims any obligation to release publicly any updates or revisions to any forward-looking statement contained herein to reflect any change in the Company's expectations with regard thereto or any change in events, conditions

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or circumstances on which any such statement is based. The following discussion of the Company's results of operations and financial condition should be read in conjunction with the interim unaudited condensed financial statements of the Company and the notes thereto included herein and in conjunction with the information contained in the Annual Report on Form 10-K.

### **Critical Accounting Policies and Estimates**

Our discussion and analysis of our financial condition and results of operations are based upon our condensed consolidated financial statements, which have been prepared in accordance with U.S. generally accepted accounting principles. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts on those financial statements. On an on-going basis, we evaluate our estimates, including, but not limited to, those related to our allowance for doubtful accounts, intangible assets, deferred taxes, contingencies and stock-based compensation. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different conditions or if our assumptions change.

Our critical accounting estimates are those which we believe require our most significant judgments about the effect of matters that are inherently uncertain. A discussion of our critical accounting estimates is as follows:

*Allowance for Doubtful Accounts.* We maintain an allowance for doubtful accounts for estimated losses resulting from the inability, failure or refusal of our students to make required payments. We determine the adequacy of this allowance by regularly reviewing the accounts receivable aging and applying various expected loss percentages to certain student accounts receivable categories based upon historical bad debt experience. We generally write off accounts receivable balances deemed uncollectible as they are sent to collection agencies. We offer a variety of payment plans to help students pay that portion of their education expense not covered by financial aid programs. These balances are unsecured and not guaranteed. We believe our reserves are adequate; however, losses related to unpaid student balances could exceed the amounts we have reserved for bad debts.

Many of our students in the U.S. participate in federally guaranteed student loan programs. The federally guaranteed student loans are authorized by the Higher Education Act (HEA) of 1965 and are guaranteed by an agency of the federal government. The guaranteed loans are not guaranteed by us, and the guaranteed student loans cannot become an obligation of ours. Accordingly, we do not record an obligation to repay any of the guaranteed loans that are not repaid by our former students and we do not record either a contingent obligation or an allowance for future obligations as a result of student defaults of federally guaranteed student loans.

The guarantee of student loans is provided by an agency of the federal government, not by us. If an institution's former students' default rate on guaranteed loans (Cohort Default Rate) equals or exceeds 25% for three consecutive years, the institution may lose participation eligibility in the guaranteed loan program and its students would be denied access to the guaranteed loan program. Our institutions' Cohort Default Rates act as a gatekeeper to their eligibility to participate in the federal student financial aid programs. We have no obligation to repay any of the federally guaranteed loans that our former students default upon, even if the Cohort Default Rates of our students exceed permitted levels. Rather, if the Cohort Default Rates at a particular institution exceed 25% for three consecutive years, the institution's students may lose eligibility to receive federal student financial aid.

*Insurance/Self-Insurance.* We use a combination of insurance and self-insurance for a number of risks including claims related to employee health care, workers' compensation, general liability, and business interruption. Liabilities associated with these risks are estimated based on, among other things, historical claims experience, severity factors and other actuarial assumptions. The Company's loss exposure related to self-insurance is limited by stop loss coverage. Our expected loss accruals are based on estimates, and while we believe the amounts accrued are adequate, the ultimate loss may differ from the amounts provided.

*Goodwill and Intangible Assets.* We have significant goodwill and other intangible assets. Goodwill represents the excess of the cost over the fair market value of net assets acquired, including identified intangible assets. We consider a number of factors, including valuations and appraisals from independent valuation firms, in determining the amounts that are assignable to other intangible assets, such as curriculum, accreditation, and trade names. We, however, are ultimately responsible for the valuations. The fair value of identified intangible assets is derived using accepted valuation methodologies, including cost, market, and income approaches, as appropriate, following consultations with valuation firms and in accordance with SFAS No. 141, Business Combinations (SFAS No. 141), and requirements set forth by the Uniform Standards of Professional Appraisal Practice.

As of July 1, 2002, we ceased amortization of goodwill recorded in conjunction with past business combinations. In addition, we conducted a review of our other identifiable intangible assets and determined that accreditation and trade names



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met the indefinite life criteria outlined in SFAS No. 142. Our review considered analysis of all pertinent factors, including the expected use of the asset, any legal, regulatory, or contractual provisions that may limit the useful life, the effects of obsolescence, demand, competition, and other economic factors, and the level of maintenance expenditures required to obtain the expected future cash flows from the asset. Accordingly, we also ceased amortization of the accreditation and trade names as of July 1, 2002. Curricula continue to be amortized over their useful lives ranging generally from three to fifteen years and the amortization is included in general and administrative expenses in the accompanying consolidated statements of operations.

Goodwill is tested annually or more frequently if circumstances indicate potential impairment, by comparing its fair value to its carrying amount at the reporting unit level as defined by SFAS No. 142. We determined the fair value of our reporting units using the income approach that includes discounted cash flow as well as other generally accepted valuation methodologies. To the extent the fair value of a reporting unit is less than the carrying amount of its assets, we record an impairment charge in the consolidated statements of operations.

Indefinite-lived intangible assets are tested annually or more frequently if circumstances indicate potential impairment, by comparing their fair values to their carrying amounts. To the extent the fair value of an intangible asset is less than its carrying amount, we record an impairment charge in the consolidated statements of operations. For instance, if we were to discontinue the use of a trade name or lose accreditation at one or more of our acquired schools to which we have ascribed value for trade names and accreditation, we would test the amounts we have allocated to such assets for impairment. Such testing would include estimating the future cash flows expected to be received from the trade names and accreditation and comparing them to their carrying values. If our estimate of the present value of these future cash flows were below the carrying values of the related assets, we would consider the assets to be impaired and take a charge against the amounts we had allocated to trade names and accreditation.

The determination of related estimated useful lives of intangible assets and whether or not these intangible assets are impaired involves significant judgment. Although we believe our goodwill and intangible assets are fairly stated, changes in strategy or market conditions could significantly impact these judgments and require adjustments to asset balances.

*Discontinued Operations.* During the fourth quarter of 2007, the Company decided to divest all of its CDI campuses outside of the province of Ontario, Canada as well as the WyoTech Boston campus (the Sale Group). The Company will continue to operate and invest in the campuses within the Sale Group until the schools are sold. Each of the campuses within the Sale Group is available for immediate sale in its present condition, and we expect to complete the sale of these schools in fiscal 2008. We expect to have no significant continuing involvement with the schools after they have been sold.

We believe that the campuses within the Sale Group meet the criteria necessary for such entities to qualify as assets held for sale under the specific provision of SFAS 144. Accordingly, the results of operations of the campuses within the Sale Group are reflected as discontinued operations in our consolidated statements of income for all periods presented. Additionally, in accordance with SFAS 144, as we expect to complete the Sale Plan within a year, assets and liabilities of the campuses within the Sale Group are reflected as current assets held for sale and current liabilities held for sale on our consolidated balance sheet as of September 30, 2007 and June 30, 2007.

Under SFAS 144, the net assets held for sale are required to be recorded on the balance sheet at estimated fair value, less costs to sell. Accordingly, during the fourth quarter of 2007, we recorded a charge of approximately \$5.4 million, net of income tax benefit of \$0.3 million, to reduce the carrying value of the net assets of our campuses held for sale to estimated fair value, less costs to sell, as of June 30, 2007 (primarily related to the impairment of goodwill in the amount of \$5.0 million for the divested CDI schools).

*Deferred Taxes.* We currently have deferred income tax assets which are subject to periodic recoverability assessments. Valuation allowances are established, when necessary, to reduce deferred tax assets to the amount that more likely than not will be realized. Realization of our deferred income tax assets is principally dependent upon achievement of projected future taxable income offset by deferred income tax liabilities. We evaluate the realizability of our deferred income tax assets annually.

*Contingencies.* In the ordinary conduct of the business, we are subject to occasional lawsuits, investigations and claims, including, but not limited to, claims involving students and graduates and routine employment matters. When we are aware of a claim or potential claim, we assess the likelihood of any loss or exposure. If it is probable that a loss will result and the amount of the loss can reasonably be estimated, we record a liability for the loss. If the loss is not probable or the amount of the loss cannot be reasonably estimated, we disclose the nature of the specific claim if the likelihood of a potential loss is reasonably possible and the amount involved is material. There can be no assurance that the ultimate outcome of any of the matters disclosed will not have a material adverse effect on our financial condition or results of operations.



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*Stock-based Compensation.* In December 2004, the FASB issued SFAS No. 123 (revised 2004), *Share-Based Payment* ( SFAS No. 123(R) ), which amends SFAS No. 123, *Accounting for Stock-Based Compensation*, supercedes APB Opinion No. 25, *Accounting for Stock Issued to Employees*, and amends SFAS No. 95, *Statement of Cash Flows*. SFAS No. 123(R) requires companies to measure all employee stock-based compensation awards using a fair value method and record such expense in its consolidated financial statements. In addition, the adoption of SFAS No. 123(R) requires additional accounting and disclosure related to the income tax and cash flow effects resulting from share-based payment arrangements. SFAS No. 123(R) is effective beginning as of the first interim or annual reporting period beginning after June 15, 2005. Accordingly, we adopted SFAS No. 123(R) during the first quarter of fiscal 2006 in accordance with the modified-prospective-transition method and began recognizing compensation expense for stock options which vested during the year.

**Results of Operations**

The following table summarizes our operating results as a percentage of total revenue for the periods indicated.

	<b>Three Months Ended September 30,</b>	
	<b>2007</b>	<b>2006</b>
<b>Statement of Operations Data (Unaudited):</b>		
Net revenues	100.0%	100.0%
<b>Operating expenses:</b>		
Educational services	59.4	58.6
General and administrative	10.6	12.4
Marketing and admissions	27.4	27.6
<b>Total operating expenses</b>	<b>97.4</b>	<b>98.6</b>
Income from operations	2.6	1.4
Interest (income)	(0.3)	(0.6)
Interest expense	0.2	0.3
Other (income) expense	(0.3)	0.1
Income from continuing operations before provision for income taxes	3.0	1.6
Provision for income taxes	1.3	0.5
Income from continuing operations	1.7	1.1
(Loss) income from discontinued operations, net of tax	(0.9)	(0.5)
Net income	0.8%	0.6%

**Three Months Ended September 30, 2007 Compared to Three Months Ended September 30, 2006**

*Net Revenues.* Net revenues increased \$25.4 million, or 11.5%, from \$222.1 million in the first quarter of fiscal 2007 to \$247.5 million in the first quarter of fiscal 2008. The increase was due to an approximate 6.5% increase in the average revenue rate per student and a 4.7% increase in average student population during the period. At September 30, 2007, student population related to continuing operations was 67,445, compared with 63,329 at September 30, 2006. Total student starts related to continuing operations increased 13.0% to 28,310 for the first quarter of fiscal 2008 when compared to the first quarter of last year.

*Educational Services.* Educational services expenses include direct operating expenses of the schools consisting primarily of payroll and payroll related expenses, rents, occupancy costs, supply expenses, bad debt expense and other educational related expenses. Educational services expenses increased \$16.9 million, or 12.9%, from \$130.2 million in the first quarter of fiscal 2007 to \$147.1 million in the first quarter of fiscal 2008. As a percentage of net revenues, educational services expenses increased from 58.6% of revenues in the first quarter of fiscal 2007 to 59.4% of revenues in the first quarter of fiscal 2008. The increase, as a percent of revenues, was due primarily to an increase in bad debt expense. Bad debt expense for the first quarter of fiscal 2008 amounted to \$15.7 million or 6.3% of net revenues, compared to \$12.4 million or 5.6% of net revenues for the first quarter of fiscal 2007. We believe that bad debt increased primarily as a result of higher start growth, which created a backlog of student financial aid applications at our campuses. The backlog created delays in Title IV funding, which resulted in higher

bad debt.

Additionally, during the first quarter of 2008, 12 programs from current curricula were added to our schools; 9 programs were added in the U.S. and 3 were added in Canada.



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*General and Administrative.* General and administrative expenses include corporate compensation expenses, headquarters office rents and occupancy expenses, professional fees and other support related expenses. General and administrative expenses decreased \$1.3 million, or 4.6%, from \$27.5 million in the first quarter of fiscal 2007 to \$26.2 million in the first quarter of fiscal 2008. As a percentage of net revenues, general and administrative expenses decreased from 12.4% of revenues in the first quarter of fiscal 2007 to 10.6% of revenues in the first quarter of fiscal 2008. The decrease is primarily a result of costs incurred in the first quarter of fiscal 2007 related to the Company's investigation of its past stock option grants.

*Marketing and Admissions.* Marketing and admissions expenses consist primarily of direct-response and other advertising expenses, payroll and payroll related expenses, promotional materials and other related marketing costs. Marketing and admissions expenses increased \$6.5 million, or 10.6%, from \$61.3 million in the first quarter of fiscal 2007 to \$67.8 million in the first quarter of fiscal 2008. As a percentage of net revenues, marketing and admissions expenses decreased slightly from 27.6% of revenues in the first quarter of fiscal 2007 to 27.4% of revenues for the first quarter of fiscal 2008, primarily as a result of lower advertising costs.

*Discontinued Operations.* Loss from discontinued operations increased \$1.3 million, or 137.7%, from \$0.9 million in the first quarter of fiscal 2007 to \$2.2 million in the first quarter of fiscal 2008. The increase in loss from discontinued operations is primarily due to severance costs of \$1.1 million incurred during the quarter.

### **Seasonality and Other Factors Affecting Quarterly Results**

Our net revenues normally fluctuate as a result of seasonal variations in our business. Student population varies as a result of new student enrollments, graduations, and student attrition. Historically, our schools have had lower revenues in the first fiscal quarter than in the remainder of the year. Our expenses, however, do not vary as significantly as student population and revenues. We expect quarterly fluctuations in operating results to continue as a result of seasonal enrollment patterns. More importantly, quarterly results may be impacted based on the timing and extent of new acquisitions, new branch openings, relocations and remodels, new program adoptions and increased high school enrollments. The operating results for any quarter are not necessarily indicative of the results for any future period.

### **Liquidity and Capital Resources**

On August 10, 2007, we executed Amendment No. 1 to our Second Amended and Restated Credit Agreement ( Credit Facility ) dated June 8, 2005. The amendment, which was effective as of June 30, 2007, adjusted the maintenance level for the fixed charge coverage ratio. All other terms of the facility remained unchanged including the aggregate borrowing capacity of \$235 million, of which \$175 million is a domestic facility and \$60 million is a Canadian facility. The Credit Facility expires in 2010 and has been established to provide available funds for acquisitions, to fund general corporate purposes, and to provide for letters of credit issuances of up to \$50 million for domestic letters of credit and \$20 million for Canadian letters of credit. Borrowings under the Credit Facility bear interest at several pricing alternatives available to us, including Eurodollar and adjusted reference or base rates. The domestic base rate is defined as the higher of the Federal Funds rate plus 1/2 of 1% or the Bank of America prime rate. The Canadian base rate is defined as the higher of the average rate for 30 day Canadian Dollar bankers acceptances plus 3/4 of 1% or the Bank of America Canada prime rate. The Credit Facility contains customary affirmative and negative covenants including financial covenants requiring the maintenance of consolidated net worth, fixed charge coverage ratios, leverage ratios, and a ED financial responsibility composite score ratio. As of September 30, 2007, we were in compliance with all of the covenants. As of September 30, 2007, the Credit Facility had borrowings outstanding of \$33.1 million and approximately \$14.2 million was used to support standby letters of credit. The Credit Facility is secured by the stock of our significant operating subsidiaries and it is guaranteed by our present and future significant operating subsidiaries.

Working capital amounted to \$40.7 million as of September 30, 2007 and \$123.6 million as of June 30, 2007 and the current ratio was 1.3:1 and 1.8:1, respectively. The decrease in working capital compared to September 30, 2007 is primarily due to repayment of cash borrowed for purposes of calculating our ED financial responsibility composite score.

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Cash flows used in operating activities amounted to (\$1.0) million in the first three months of fiscal 2008 compared to \$17.9 million provided by operating activities in the same period of fiscal 2007. The decrease in cash provided by operating activities for the first three months of fiscal 2008 compared to the first three months of fiscal 2007 was primarily due to a decrease in prepaid tuition, a decrease in accrued expenses, and severance payments related to discontinued operations. Included in cash flows from operating activities is \$0.6 million and \$1.3 million of net cash used in operating activities related to discontinued operations for the first quarters of 2008 and 2007, respectively.

Cash flows provided by investing activities amounted to \$2.4 million in the first three months of fiscal 2008 compared to cash flows used in investing activities of \$38.8 million in the first three months of fiscal 2007. The increase in cash provided by investing activities in the first three months of fiscal 2008 compared to the same period last year was due primarily to an increase in sales of marketable securities and a decrease in investments in marketable securities. Capital expenditures of \$11.6 million during the first quarter of fiscal 2008 were incurred primarily for relocations, remodels and enlargements of existing campuses and to fund information systems expenditures. We expect capital expenditures to be approximately \$55-\$60 million for fiscal 2008.

Cash flows used in financing activities in the first three months of fiscal 2008 amounted to approximately \$80.0 million compared to cash flows provided by financing activities of \$0.5 million for the first three months of fiscal 2007. The increase in cash used in financing activities in the first three months of fiscal 2008 compared to the same period last year was due primarily to a repayment of long-term debt. We funded our cash needs through the use of existing cash balances.

### **Update Regarding Regulatory and Accreditation Matters**

As previously reported, in a letter from ACCSCT dated June 8, 2007, the Company was informed of a probation action regarding our Everest College campus in San Francisco, CA. In another letter from ACCSCT dated June 8, 2007, the Company was informed of a probation action regarding our Everest Institute campus in Houston, Texas. In a letter from ABHES dated July 26, 2007, the Company was informed of a Show Cause action regarding our NST campuses in Miami and Hialeah, Florida. With respect to the schools identified above which have been placed on Probation or received Show Cause orders, each of these locations represented less than 1.6% of our campuses fiscal 2007 operating profit (before corporate overhead allocation) individually, and less than 2.9% in aggregate.

### **Item 3. Quantitative and Qualitative Disclosure about Market Risk**

We are exposed to the impact of interest rate changes and foreign currency fluctuations. We do not utilize interest rate swaps, forward or option contracts on foreign currencies or commodities, or other types of derivative financial instruments to manage these risks.

*Interest Rate Exposure.* As of September 30, 2007, our only assets or liabilities subject to risks from interest rate changes are (i) debt under the credit facility in the aggregate amount of \$33.1 million and capital lease obligations of \$15.4 million, and (ii) student notes receivable, net, in the aggregate amount of \$13.2 million. Our capital lease obligations and student notes receivable are all at fixed interest rates. We do not believe we are subject to material risks from reasonably possible near-term changes in market interest rates.

*Foreign Currency Exposure.* A portion of our operations consists of an investment in a foreign subsidiary whose functional currency is the Canadian dollar (CAD). Our investment in our foreign operations as of September 30, 2007 was CAD \$48.4 million which includes borrowings outstanding under the credit facility of CAD \$33.0 million. As a result, the consolidated financial results have been and could continue to be affected by changes in foreign currency exchange rates.

### **Item 4. Controls and Procedures**

#### **Evaluation of Disclosure Controls and Procedures**

We carried out under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, an evaluation of the effectiveness of our disclosure controls and procedures, as such term is defined in Exchange Act Rule 13a-15(e), as of the end of the period covered by this report and concluded that those controls and procedures were effective.

#### **Changes in Internal Controls Over Financial Reporting**

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There were no changes in our internal control over financial reporting during the quarter ended September 30, 2007 that have materially affected or are reasonably likely to materially affect our internal control over financial reporting.

It should be noted that any system of controls, however well designed and operated, can provide only reasonable, and not absolute, assurance that the objectives of the system will be met. In addition, the design of any control system is based in part upon certain assumptions about the likelihood of future events. Because of these and other inherent limitations of control systems, there is only the reasonable assurance that our controls will succeed in achieving their goals under all potential future conditions.

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**PART II OTHER INFORMATION**

**Item 1. Legal Proceedings**

See Note 8 to the attached condensed consolidated financial statements regarding Commitments and Contingencies.

**Item 1A. Risk Factors**

There have been no material changes in the risk factors disclosed in Item 1A of our Annual Report on Form 10-K for the year ended June 30, 2007.

**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**

None

**Item 5. Other Information**

None

**Item 6. Exhibits**

(a) Exhibits:

Exhibit 31.1 Chief Executive Officer Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

Exhibit 31.2 Chief Financial Officer Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

Exhibit 32.1 Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

Exhibit 32.2 Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

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**CORINTHIAN COLLEGES, INC. AND SUBSIDIARIES**

**SIGNATURES**

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

**CORINTHIAN COLLEGES, INC.**

November 9, 2007

*/s/ JACK D. MASSIMINO*  
**Jack D. Massimino**  
**President and Chief Executive Officer**  
**(Principal Executive Officer)**

November 9, 2007

*/s/ KENNETH S. ORD*  
**Kenneth S. Ord**  
**Executive Vice President and Chief Financial Officer**  
**(Principal Financial Officer)**

November 9, 2007

*/s/ ROBERT C. OWEN*  
**Robert C. Owen**  
**Senior Vice President and Chief Accounting Officer**  
**(Principal Accounting Officer)**