CORINTHIAN COLLEGES INC
Form 10-Q
February 04, 2008
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
FOR THE QUARTERLY PERIOD ENDED DECEMBER 31, 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

CORINTHIAN COLLEGES, INC.

(Exact name of registrant as specified in its charter)

Delaware	33-0717312
(State or other jurisdiction of Incorporation or organization)	(I.R.S. Employer Identification No.)

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

(Address of principal executive offices)

92707

(Zip Code)

(714) 427-3000

(Registrant s telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

Indicate 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 x 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 x

At January 28, 2008, there were 85,091,522 shares of Common Stock of the Registrant outstanding.

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CORINTHIAN COLLEGES, INC. AND SUBSIDIARIES

INDEX TO FORM 10-Q

For the Second Quarter Ended December 31, 2007

EXPLANATORY NOTE

During the fourth quarter of fiscal 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 has been made available for immediate sale in its present condition, and we expect to complete the sale of these schools in fiscal 2008. The Company has entered into an asset purchase agreement to sell its Canadian schools located outside the Province of Ontario with an estimated closing date during the third quarter of 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.

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements

CORINTHIAN COLLEGES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

	December 31, 2007 (Unaudited)	June 30, 2007
	(In thousands)	
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 72,286	$ 99,789
Marketable securities		15,000
Accounts receivable, net of allowance for doubtful accounts of $27,867 and $24,142 at December 31, 2007 and June 30, 2007, respectively	79,600	75,289
Student notes receivable, net of allowance for doubtful accounts of $1,960 and $953 at December 31, 2007 and June 30, 2007, respectively	2,325	3,785
Deferred income taxes	25,916	25,756
Prepaid expenses and other current assets	34,890	44,620
Assets held for sale	11,945	10,640
Total current assets	226,962	274,879
PROPERTY AND EQUIPMENT, net	220,261	216,626
OTHER ASSETS:		
Goodwill, net	193,363	189,954
Other intangibles, net	40,900	41,583
Student notes receivable, net of allowance for doubtful accounts of $2,772 and $2,497 at December 31, 2007 and June 30, 2007, respectively	12,380	6,140
Deposits and other assets	4,965	4,753
TOTAL ASSETS	$ 698,831	$ 733,935
LIABILITIES AND STOCKHOLDERS EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 48,774	$ 38,802
Accrued compensation and related liabilities	38,973	34,818
Accrued expenses	11,405	17,835
Prepaid tuition	63,230	49,770
Current portion of capital lease obligations	407	373
Current portion of long-term debt		11
Liabilities held for sale	14,587	9,630
Total current liabilities	177,376	151,239
LONG-TERM CAPITAL LEASE OBLIGATIONS, net of current portion	14,921	15,141
LONG-TERM DEBT, net of current portion	31,373	112,913
DEFERRED INCOME TAXES	6,939	28,298
OTHER LIABILITIES	63,407	40,922
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS EQUITY:		
Common Stock, $0.0001 par value:		

Common Stock, 120,000 shares authorized, 87,314 shares issued and 85,057 shares outstanding at December 31, 2007 and 86,773 shares issued and 84,516 shares outstanding at June 30, 2007	9	9
Additional paid-in capital	171,396	160,312
Treasury stock, at cost, 2,257 shares	(31,368)	(31,368)
Retained earnings	263,237	255,594
Accumulated other comprehensive income	1,541	875
TOTAL STOCKHOLDERS EQUITY	404,815	385,422
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	$ 698,831	$ 733,935

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

	Three Months Ended December 31, 2007	Three Months Ended December 31, 2006	Six Months Ended December 31, 2007	Six Months Ended December 31, 2006
	(In thousands, except per share data)			
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
NET REVENUES	$ 272,564	$ 235,119	$ 520,085	$ 457,208
OPERATING EXPENSES:				
Educational services	156,114	133,905	303,184	264,121
General and administrative	28,758	30,371	54,979	57,848
Marketing and admissions	72,953	64,038	140,791	125,365
Impairment, facility closing and severance charges		2,351		2,351
Total operating expenses	257,825	230,665	498,954	449,685
INCOME FROM OPERATIONS	14,739	4,454	21,131	7,523
Interest (income)	(1,003)	(1,707)	(1,858)	(3,198)
Interest expense	554	829	1,125	1,587
Other (income) expense, net	(343)	192	(989)	457
INCOME FROM CONTINUING OPERATIONS BEFORE PROVISION FOR INCOME TAXES	15,531	5,140	22,853	8,677
Provision for income taxes	6,385	1,881	9,527	3,081
INCOME FROM CONTINUING OPERATIONS	9,146	3,259	13,326	5,596
LOSS FROM DISCONTINUED OPERATIONS, net of tax	(1,034)	(676)	(3,261)	(1,613)
NET INCOME	$ 8,112	$ 2,583	$ 10,065	$ 3,983
INCOME PER SHARE BASIC:				
Income from continuing operations	$ 0.11	$ 0.04	$ 0.16	$ 0.07
Loss from discontinued operations	$ (0.01)	$ (0.01)	$ (0.04)	$ (0.02)
Net income	$ 0.10	$ 0.03	$ 0.12	$ 0.05
INCOME PER SHARE DILUTED:				
Income from continuing operations	$ 0.11	$ 0.04	$ 0.16	$ 0.07
Loss from discontinued operations	$ (0.01)	$ (0.01)	$ (0.04)	$ (0.02)
Net income	$ 0.10	$ 0.03	$ 0.12	$ 0.05
Weighted average number of common shares outstanding:				
Basic	84,898	86,327	84,764	86,326
Diluted	86,350	87,474	86,072	87,486

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

	Six Months Ended December 31, 2007	2006
	(In thousands) (Unaudited)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 10,065	$ 3,983
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Depreciation and amortization	21,905	21,013
Deferred taxes		12
Impairment charge		67
Loss on disposal of assets	411	99
Stock-based compensation	5,088	2,343
Changes in assets and liabilities, net of effects from acquisitions:		
Accounts receivable, net	1,126	(10,500)
Student notes receivable, net	(11,034)	(832)
Prepaid expenses and other assets	9,854	7,129
Accounts payable	10,412	(5,123)
Accrued expenses, compensation and related benefits	(6,571)	3,196
Income tax payable		
Prepaid tuition	16,592	6,499
Other long-term liabilities	1,471	2,408
Net cash provided by operating activities	59,319	30,294
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(24,614)	(34,099)
Change in restricted cash		10
Proceeds from sale of assets	319	1,887
Purchase of / investments in marketable securities	(79,450)	(131,450)
Sales of / disposition of marketable securities	94,450	122,125
Net cash (used in) investing activities	(9,295)	(41,527)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Principal repayments on capital lease obligations and long-term debt	(84,065)	(243)
Purchase of treasury stock		(1,458)
Proceeds from exercise of stock options and Employee Stock Purchase Plan	6,436	1,289
Net cash (used in) financing activities	(77,629)	(412)
EFFECTS OF EXCHANGE RATE CHANGES ON CASH	102	(145)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(27,503)	(11,790)
CASH AND CASH EQUIVALENTS, beginning of period	99,789	36,795
CASH AND CASH EQUIVALENTS, end of period	$ 72,286	$ 25,005

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:				
Other long-term asset obligation	$		$	4,300
SUPPLEMENTAL DISCLOSURE OF NON CASH INVESTING AND FINANCING ACTIVITIES:				
Cash paid (received) during the period for:				
Income taxes	$	1,181	$	(889)
Interest	$	1,753	$	1,390

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

December 31, 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 has been made available for immediate sale in its present condition, and we expect to complete the sale of these schools in fiscal 2008. The Company has entered into an asset purchase agreement to sell its Canadian schools located outside the Province of Ontario with an estimated closing date during the third quarter of 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 December 31, 2007, the Company had more than 67,700 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 and six months ended December 31, 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 December 31, 2007 and for the three and six months ended December 31, 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 and six months ended December 31, 2007 and 2006 (in thousands):

	Three Months Ended December 31,	Six Months Ended

			December 31,	
	2007	2006	2007	2006
Basic common shares outstanding	84,898	86,327	84,764	86,326
Effects of dilutive securities:				
Stock options and restricted stock units	1,452	1,147	1,308	1,160
Diluted common shares outstanding	86,350	87,474	86,072	87,486

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During the six-month period ended December 31, 2007, the Company issued approximately 0.5 million shares of common stock related to the Company s employee stock purchase plan, exercise of stock options and delivery of restricted stock units.

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 has been made 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 December 31, 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. During the second quarter of 2008, the Company recognized additional severance costs of approximately $1.2 million related to employees terminated as a result of the pending divestitures. The Company estimates that the employee retention and severance costs associated with this transaction will be approximately $2.7 million, of which approximately $2.3 million has been incurred as of December 31, 2007.

The table below summarizes the liability and activity for the month period ended December 31, 2007, relating to the discontinued operations severance charges (in thousands):

	Severance and Benefits
Balance at June 30, 2007	$
Charges	2,325
Adjustments	
Cash payments	(1,133)
Balance at December 31, 2007 (Unaudited)	$ 1,192

On December 14, 2007, the Company announced that it had entered into an asset purchase agreement to sell its Canadian schools located outside the province of Ontario to a wholly owned subsidiary of the Eminata Group, in a cash transaction valued at CAD $7.4 million. The agreement is subject to a negative working capital adjustment to be made at closing. The closing of the transaction is conditioned upon receipt of regulatory approvals, landlord consents, and other customary closing conditions. Corinthian currently expects the transaction to close in its third fiscal quarter of this year.

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Combined summary results of operations for the Sale Group reflected as discontinued operations in our consolidated statements of operations for the three and six months ended December 31, 2007 and 2006 (in thousands), are as follows:

	Three Months Ended December 31, 2007	Three Months Ended December 31, 2006	Six Months Ended December 31, 2007	Six Months Ended December 31, 2006
	(in thousands)		(in thousands)	
Total Discontinued Operations				
Net revenue	$ 9,738	$ 9,928	$ 18,115	$ 19,640
Loss before income tax, including estimated loss on disposal	(1,627)	(872)	(5,071)	(2,096)
Income tax benefit	(593)	(196)	(1,810)	(483)
Total net loss from discontinued operations	$ (1,034)	$ (676)	$ (3,261)	$ (1,613)

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Combined summary of assets and liabilities of the Sale Group at December 31, 2007 and June 30, 2007, are as follows:

	December 31, 2007 (Unaudited)	June 30, 2007
	(in thousands)	
Assets		
Current Assets:		
Accounts receivable, net of allowance for doubtful accounts of $1,408 and $1,320 at December 31, 2007 and June 30, 2007, respectively	$ 1,566	$ 557
Student notes receivable, net of allowance for doubtful accounts of $0 and $2 at December 31, 2007 and June 30, 2007, respectively	10	11
Prepaids & other current	965	1,080
Total Current Assets	2,541	1,648
Property, and equipment, net	5,636	5,446
Goodwill	2,041	1,907
Other Intangibles, net	1,711	1,599
Deposits & other assets	16	40
Total Assets	$ 11,945	$ 10,640
Liabilities		
Current Liabilities:		
Accounts payable	$ 354	$ 343
Accrued compensation and related liabilities	773	1,023
Accrued expenses	1,370	219
Prepaid tuition	9,162	5,072
Other liabilities	2,928	2,973
Total Current Liabilities	14,587	9,630

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 December 31, 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 and six month periods ended December 31, 2007 and 2006 (in thousands):

	Three Months Ended December 31,		Six Months Ended December 31,	
	2007	2006	2007	2006
Net income	$ 8,112	$ 2,583	$ 10,065	$ 3,983
Foreign currency translation adjustments	20	(474)	631	(482)
Post employment benefits	18		35	
Comprehensive income	$ 8,150	$ 2,109	$ 10,731	$ 3,501

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Note 6 Impairment, Facility Closing, and Severance Charges

The table below summarizes the liability and activity for the six month period ended December 31, 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	(135)	(1,118)	(1,253)
Balance at December 31, 2007 (Unaudited)	$ 342	$ 2,508	$ 2,850

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 December 31,		Six Months Ended December 31,	
	2007	2006	2007	2006
Revenues from unaffiliated customers				
U.S. operations	$ 255,612	$ 220,874	$ 488,201	$ 429,756
Canadian operations	16,952	14,245	31,884	27,452
Consolidated	$ 272,564	$ 235,119	$ 520,085	$ 457,208

	December 31, 2007 (unaudited)	June 30, 2007
Long-lived assets		
U.S. operations	$ 413,774	$ 391,713
Canadian operations	58,095	67,343
Consolidated	$ 471,869	$ 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

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, now known as Everest University, in Florida and online. The plaintiffs allege that FMU concealed the fact that it is not accredited by the Commission

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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 Mr. 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 Mr. Satz related to these findings. Additionally, the Company affirmatively filed an arbitration action against Ms. 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 Ms. Travis and the Company has appealed that ruling. The Company has filed motions to compel arbitration in Alvarez, and the Travis court compelled that case to arbitration. Ms. Travis has lost her appeal regarding the order compelling the matter to arbitration, the arbitration process has begun, and another named plaintiff has also been added to the claim. 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 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. Oral argument is currently scheduled to be heard on that appeal on February 11, 2008. 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.

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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 were 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, 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 defendants have filed a motion with the federal court to dismiss that consolidated case and have filed a motion to stay the state court consolidated case pending resolution of the federal action.

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.

On November 14, 2007, the Company was served with a putative class action complaint filed in the United States District Court for the Central District of California captioned *Hardwick, et al. v. Corinthian Colleges, Inc.* The plaintiff is a former instructor at the Company s Merrionette Park, Illinois campus. Her complaint seeks certification of a class composed of all campus instructors nationwide, alleging wage and hour violations of the Fair Labor Standards Act, as well as a class of Illinois instructors alleging violations of the Illinois Wage Payment and Collection Act and Illinois Eight-Hour Work Day Act. The complaint seeks monetary damages, declaratory and injunctive relief and attorneys fees. The Company believes the complaint is without merit and intends to vigorously defend itself against these allegations.

The Company was notified that on December 31, 2007, a putative class action complaint entitled *Leask v. Corinthian Colleges, Inc., and Corinthian Schools, Inc., et al.*, was filed in the Santa Clara, California Superior Court. Plaintiffs are a former medical assisting student from the Company s Everest College (formerly Bryman College) campus in San Jose and her mother. The complaint alleges violations of the California Education Code and of California s Business and Professions Code Section 17200 related to allegedly missing or inadequate student disclosures and seeks declaratory and injunctive relief, attorneys fees, and an unspecified amount of damages. Additionally, the complaint seeks to certify a class composed of all medical assisting students in California over the last four years. The Company believes the complaint is without merit and intends to vigorously defend itself against these allegations.

In addition to the legal proceedings and other matters described above, the Company is or may become 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.

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As of December 31, 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.

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 now reported as a component of income tax expense. During the second quarter of fiscal 2008, the Company recognized income tax-related interest of $0.3 million in accordance with FIN 48. As of December 31 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 $4.4 million and $3.6 million, respectively.

As of December 31 and July 1, 2007, we were subject to examination in the U.S. federal tax jurisdiction for the fiscal 2005 and 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 2005 and 2006 years. During the current quarter, the Company settled and closed the IRS examination related to fiscal 2004 in the amount of $0.7 million, excluding accrued interest of $0.2 million.

As of December 31 and July 1, 2007, the total amount of unrecognized tax benefits was $21.2 million. As of December 31 and July 1, 2007, the total amount of unrecognized tax benefits that would affect the effective tax rate, if recognized was $0.4 million and $1.1 million, respectively. The amount of unrecognized tax benefits that are expected to be settled within the next twelve months with the IRS is approximately $0.4 million.

Note 10 Subsequent Events

Student Lending

The Company has been informed by Sallie Mae and two other lenders that they will no longer make private loans available for students who present higher credit risks (i.e. subprime borrowers). The Company understands that this change in policy applies to subprime borrowers at post-secondary institutions in general.

Effective October 1, 2007, Congress reduced subsidies for all Federal Title IV student financial aid lenders. Those subsidy reductions, coupled with the challenging subprime credit market, have caused lenders to re-evaluate their contractual arrangements with post-secondary institutions, including Corinthian.

The largest of these lenders, Sallie Mae, provided 90% of private loans for Corinthian s students in the United States in fiscal 2007. Private loans constituted approximately 13% of the Company s U.S. revenue (on a cash basis) in fiscal 2007. On January 18, 2008, the Company received a letter from Sallie Mae indicating that it was exiting the subprime lending business for private student loans. Thus, effective March 1, 2008, Sallie Mae will no longer provide private loans for Corinthian students in the subprime credit category. In fiscal 2007, approximately 75% of private loans issued to Corinthian s students were subprime. We understand that Sallie Mae s intention is to honor its loan obligations to current students, continue providing private loans to students with prime credit scores; and continue providing federal Title IV loans.

In addition to Sallie Mae, two other contract lenders had been providing private loans for Corinthian s students, College Loan Corporation and Student Loan Express. College Loan Corporation (CLC) has notified us that they will no longer offer either Title IV or private loans to the career college sector. Student Loan Express has notified us that they will no longer offer private loans, but will continue to offer Title IV loans to our students.

The Company is considering several alternatives for replacing the student financing formerly provided by Sallie Mae and other lenders. These include: changing the mix of funding sources to reduce reliance on third-party loans; expanding the Company s own lending program; using third party lenders to issue the loans, which Corinthian would guarantee against default; seeking new lenders who will make private loans available to Corinthian s students in both the prime and subprime credit categories. These alternatives involve risks and uncertainties. Increasing the amount that new students pay in cash and instituting stricter underwriting guidelines may slow the Company s rate of enrollment growth. In addition, expanding the Company s own lending program and guaranteeing third-party lenders against default may increase bad debt from current levels and decrease liquidity.

For the first six months of fiscal 2008, for the Company s U.S. operations, approximately 80% of our revenue was derived from Title IV and 20% from other sources.

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 there 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 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 federal student loans is provided by an agency of the federal government, not by us. If an institution s former students default rate on guaranteed federal 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 heath 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.

In 2002 the Company ceased amortization of goodwill and certain intangible assets in compliance with then new accounting standards. 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 that 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 has been made available for immediate sale in its present condition, and we expect to complete the sale of these schools in fiscal 2008. The Company has entered into an asset purchase agreement to sell its Canadian schools located outside the Province of Ontario with an estimated closing date during the third quarter of 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 December 31, 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 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.

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.

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Results of Operations

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

	Three Months Ended December 31, 2007	Three Months Ended December 31, 2006	Six Months Ended December 31, 2007	Six Months Ended December 31, 2006
Statement of Operations Data (Unaudited):				
Net revenues	100.0%	100.0%	100.0%	100.0%
Operating expenses:				
Educational services	57.3	57.0	58.3	57.8
General and administrative	10.6	12.9	10.6	12.6
Marketing and admissions	26.8	27.2	27.1	27.4
Impairment, facility closing and severance charges		1.0		0.5
Total operating expenses	94.6	98.1	95.9	98.4
Income from operations	5.4	1.9	4.1	1.6
Interest (income)	(0.4)	(0.7)	(0.4)	(0.7)
Interest expense	0.2	0.3	0.2	0.3
Other (income) expense	(0.1)	0.1	(0.2)	0.1
Income from continuing operations before provision for income taxes	5.7	2.2	4.4	1.9
Provision for income taxes	2.3	0.8	1.8	0.7
Income from continuing operations	3.3	1.4	2.6	1.2
Loss from discontinued operations, net of tax	(0.4)	(0.3)	(0.6)	(0.3)
Net income	3.0%	1.1%	1.9%	0.9%

Three Months Ended December 31, 2007 Compared to Three Months Ended December 31, 2006

Net Revenues. Net revenues increased $37.5 million, or 15.9%, from $235.1 million in the second quarter of fiscal 2007 to $272.6 million in the second quarter of fiscal 2008. The increase was due to an approximate 6.7% increase in the average revenue rate per student and a 8.6% increase in average student population during the period. At December 31, 2007, student population related to continuing operations was 67,744, compared with 61,800 at December 31, 2006. Total student starts related to continuing operations increased 10.0% to 22,698 for the second quarter of fiscal 2008 when compared to the second 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 $22.2 million, or 16.6%, from $133.9 million in the second quarter of fiscal 2007 to $156.1 million in the second quarter of fiscal 2008. As a percentage of net revenues, educational services expenses increased from 57.0% of revenues in the second quarter of fiscal 2007 to 57.3% of revenues in the second quarter of fiscal 2008. Bad debt expense for the second quarter of fiscal 2008 amounted to $16.3 million or 6.0% of net revenues, compared to $14.9 million or 6.3% of net revenues for the second quarter of fiscal 2007.

Additionally, during the second quarter of 2008, 13 programs from current curricula were added to our schools; 11 programs were added in the U.S. and 2 were added in Canada.

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 $1.6 million, or 5.3%, from $30.4 million in the second quarter of fiscal 2007 to $28.8 million in the second quarter of fiscal 2008. As a percentage of net revenues, general and administrative expenses decreased from 12.9% of revenues in the second quarter of fiscal 2007 to 10.6% of revenues in the second quarter of fiscal 2008. The decrease is primarily a result of costs incurred in the second quarter of the prior year related to the Company s litigation reserves and the Company s investigation of its past stock option grants, partially offset by an increase in stock-based compensation. The increase in stock-based compensation relates to the adjustment to estimated forfeitures in accordance with SFAS No. 123(R) during the second quarter of the prior fiscal year.

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 $9.0 million, or 14.1%, from $64.0 million in the second quarter of fiscal 2007 to $73.0 million in the second quarter of fiscal 2008. As a percentage of net revenues, marketing and admissions expenses decreased from 27.2% of revenues in the second quarter of fiscal 2007 to 26.8% of revenues for the second quarter of fiscal 2008, as a result of lower advertising costs as a percentage of revenue, partially offset by increased admissions representative staffing.

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Six Months Ended December 31, 2007 Compared to Six Months Ended December 31, 2006

Net Revenues. Net revenues increased $62.9 million, or 13.8%, from $457.2 million in the first six months of fiscal 2007 to $520.1 million in the first six months of fiscal 2008. The increase was due to an approximate 7.1% increase in the average revenue rate per student and a 6.7% increase in average student population during the period. At December 31, 2007, student population related to continuing operations was 67,744, compared with 61,800 at December 31, 2006. Total student starts related to continuing operations increased 11.7% to 51,008 for the first six months of fiscal 2008 when compared to the same period 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 $39.1 million, or 14.8%, from $264.1 million in the first six months of fiscal 2007 to $303.2 million in the first six months of fiscal 2008. As a percentage of net revenues, educational services expenses increased from 57.8% of revenues in the first six months of fiscal 2007 to 58.3% of revenues in the first six months 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 six months of fiscal 2008 amounted to $32.0 million or 6.2% of net revenues, compared to $27.4 million or 6.0% of net revenues for the first six months 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 six months of 2008, 25 programs from current curricula were added to our schools; 20 programs were added in the U.S. and 5 were added in Canada.

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 $2.8 million, or 4.8%, from $57.8 million in the first six months of fiscal 2007 to $55.0 million in the first six months of fiscal 2008. As a percentage of net revenues, general and administrative expenses decreased from 12.6% of revenues in the first six months of fiscal 2007 to 10.6% of revenues in the first six months of fiscal 2008. The decrease is primarily a result of costs incurred in the second quarter of fiscal 2007 related to the Company s litigation reserves and the Company s investigation of its past stock option grants, partially offset by an increase in stock-based compensation. The increase in stock-based compensation relates to the adjustment to estimated forfeitures in accordance with SFAS No. 123(R) during the second quarter of fiscal 2007.

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 $15.4 million, or 12.3%, from $125.4 million in the first six months of fiscal 2007 to $140.8 million in the first six months of fiscal 2008. As a percentage of net revenues, marketing and admissions expenses decreased slightly from 27.4% of revenues in the first six months of fiscal 2007 to 27.1% of revenues for the first six months of fiscal 2008, primarily as a result of lower advertising costs as a percentage of revenue, partially offset by increased admissions representative staffing.

Discontinued Operations. Loss from discontinued operations increased $1.7 million, or 106.3%, from $1.6 million in the first six months of fiscal 2007 to $3.3 million in the first six months of fiscal 2008. The increase in loss from discontinued operations is primarily due to severance costs of $1.1 million and $1.2 million incurred during the first and second quarters of fiscal 2008, respectively.

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

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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 December 31, 2007, we were in compliance with all of the covenants. As of December 31, 2007, the Credit Facility had borrowings outstanding of $31.4 million and approximately $13.8 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 $49.6 million as of December 31, 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 December 31, 2007 is primarily due to repayment of cash borrowed for purposes of calculating our ED financial responsibility composite score.

Cash flows provided by operating activities amounted to $59.3 million in the first six months of fiscal 2008 compared to $30.3 million provided by operating activities in the same period of fiscal 2007. The increase in cash provided by operating activities for the first six months of fiscal 2008 compared to the first six months of fiscal 2007 was primarily due to an increase in accounts payable, prepaid tuition, and net income. Included in cash flows from operating activities is $0.4 million and ($2.3) million of net cash provided by and used in operating activities related to discontinued operations for the second quarters of 2008 and 2007, respectively.

Cash flows used in investing activities amounted to $9.3 million in the first six months of fiscal 2008 compared to $41.5 million in the first six months of fiscal 2007. The decrease in cash used in investing activities in the first six months of fiscal 2008 compared to the same period last year was due primarily to a decrease in investments in marketable securities and lower capital expenditures. Capital expenditures of $24.6 million during the second 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 $50-$55 million for fiscal 2008.

Cash flows used in financing activities in the first six months of fiscal 2008 amounted to approximately $77.6 million compared to $0.4 million for the first six months of fiscal 2007. The increase in cash used in financing activities in the first six 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 cash flows from operations.

See Note 10 Subsequent Events to the accompanying financial statements for a discussion of changes in the student lending environment which may affect liquidity.

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 a letter from ACCSCT on December 7, 2007, the Company was informed the San Francisco campus was removed from probation. 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 an ACCSCT letter dated December 7, 2007, the Company was informed the Houston campus was removed from probation. 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. In another letter from ABHES dated December 18, 2007, the Company was informed the show cause directive at the Miami and Hialeah campuses was vacated. In a letter received from ACCSCT dated December 7, 2007, the Company was informed of a show cause action regarding our Everest College in North Aurora, Illinois. In a letter from ABHES dated December 18, 2007, the Company was informed of a show cause action of our campus in Atlanta, Georgia, and its branches in Marietta and Jonesboro, Georgia. The Company is currently in the process of transitioning the Marietta and Jonesboro, Georgia, campuses from branches of our Atlanta, Georgia, campus to branches of other main campuses that currently do not have any regulatory or Accreditation matters.

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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 December 31, 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 $31.4 million and capital lease obligations of $15.3 million, and (ii) student notes receivable, net, in the aggregate amount of $14.7 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 December 31, 2007 was CAD $40.7 million which includes borrowings outstanding under the credit facility of CAD $31.0 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

There were no changes in our internal control over financial reporting during the quarter ended December 31, 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

In addition to the other information set forth in this report, you should carefully consider the factors discussed in Part I, Item 1A. Risk Factors in our Annual Report on Form 10-K for the year ended June 30, 2007, which could materially affect our business, financial condition or future results. The risks described in our Annual Report on Form 10-K are not the only risks facing our Company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results.

Additionally, see Note 10 Subsequent Events to the accompanying financial statements for a discussion of changes in the student lending environment which could materially affect our business, financial condition or future results.

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

On November 16, 2007, the Company held its Annual Meeting of the Stockholders in Santa Ana, California. The purpose of the meeting was (i) to elect two Class III directors to the Company s Board of Directors for a three-year term expiring at the Annual Meeting of Stockholders in 2010; (ii) to ratify the appointment by the Audit Committee of the Board of Directors of Ernst & Young LLP as the Company s independent registered public accounting firm for its fiscal year ending June 30, 2008. No other business or actions were proposed at the Annual Meeting of the stockholders. A total of 80,630,775 shares were represented, in person or by proxy, and entitled to vote at the Annual Meeting of Stockholders. Such shares represented 95.2% of the total number of shares entitled to vote at such meeting. The following reflects the tabulation of votes for each initiative placed before the stockholders of the Company;

1) Nominees for a three year term as Class III members of the Company s Board of Directors:

Nominee		No. of Votes
Jack D. Massimino	For	79,039,136
	Withheld	1,591,639
Hank Adler	For	79,966,544
	Withheld	664,231

No other persons were nominated or received votes to be Class II Directors of the Company.

2) To ratify the appointment of Ernst & Young LLP as the Company s independent registered public accounting firm for its fiscal year ending June 30, 2008:

	No. of Votes
For	80,581,147
Withheld	32,495
Abstain	17,133

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.

February 1, 2008	/s/ JACK D. MASSIMINO **Jack D. Massimino** **President and Chief Executive Officer** **(Principal Executive Officer)**
February 1, 2008	/s/ KENNETH S. ORD **Kenneth S. Ord** **Executive Vice President and Chief Financial Officer** **(Principal Financial Officer)**
February 1, 2008	/s/ ROBERT C. OWEN **Robert C. Owen** **Senior Vice President and Chief Accounting Officer** **(Principal Accounting Officer)**