CORINTHIAN COLLEGES INC
Form 10-Q
February 09, 2007
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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, 2006

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	**(I.R.S. Employer**
Incorporation or organization)	**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 February 1, 2007, there were 86,399,028 shares of Common Stock of the Registrant outstanding.

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CORINTHIAN COLLEGES, INC. AND SUBSIDIARIES

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For the Second Quarter Ended December 31, 2006

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

CORINTHIAN COLLEGES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

	December 31, 2006 (Unaudited)	June 30, 2006
	(In thousands)	
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 25,005	$ 36,795
Restricted cash		10
Marketable securities	65,225	55,900
Accounts receivable, net of allowance for doubtful accounts of $19,531 and $19,633 at December 31, 2006 and June 30, 2006, respectively	64,647	54,221
Student notes receivable, net of allowance for doubtful accounts of $998 and $595 at December 31, 2006 and June 30, 2006, respectively	3,082	2,488
Deferred income taxes	20,931	20,943
Prepaid expenses and other current assets	37,408	44,646
Total current assets	216,298	215,003
PROPERTY AND EQUIPMENT, net	205,920	199,085
OTHER ASSETS:		
Goodwill, net	196,196	198,374
Other intangibles, net	48,122	48,983
Student notes receivable, net of allowance for doubtful accounts of $3,165 and $1,660 at December 31, 2006 and June 30, 2006, respectively	3,623	3,385
Deposits and other assets	5,194	5,177
TOTAL ASSETS	$ 675,353	$ 670,007
LIABILITIES AND STOCKHOLDERS EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 29,439	$ 34,828
Accrued compensation and related liabilities	34,436	39,813
Accrued expenses	31,327	22,745
Prepaid tuition	68,129	62,187
Current portion of capital lease obligations	341	325
Current portion of long-term debt	1,108	1,183
Total current liabilities	164,780	161,081
LONG-TERM CAPITAL LEASE OBLIGATIONS, net of current portion	13,978	14,151
LONG-TERM DEBT, net of current portion	30,038	31,402
DEFERRED INCOME TAXES	27,264	27,265
OTHER LIABILITIES	34,299	36,580
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS EQUITY:		
Common Stock, $0.0001 par value:		
	9	9

Common Stock, 120,000 shares authorized, 86,418 shares issued and 86,306 outstanding at December 31, 2006 and 86,238 issued and outstanding at June 30, 2006		
Additional paid-in capital	153,648	150,225
Treasury stock, at cost, 113 shares	(1,458)	
Retained earnings	252,345	248,362
Accumulated other comprehensive income	450	932
TOTAL STOCKHOLDERS EQUITY	404,994	399,528
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	$ 675,353	$ 670,007

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,		Six Months Ended December 31,	
	2006	2005	2006	2005
	(In thousands, except per share data)			
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
NET REVENUES	$ 245,047	$ 244,467	$ 476,849	$ 480,761
OPERATING EXPENSES:				
Educational services	141,662	135,686	279,421	273,441
General and administrative	30,779	24,556	58,709	48,214
Marketing and admissions	66,647	66,750	130,916	129,834
Impairment, facility closing and severance charges	2,379		2,379	
Total operating expenses	241,467	226,992	471,425	451,489
INCOME FROM OPERATIONS	3,580	17,475	5,424	29,272
Interest (income)	(1,710)	(1,411)	(3,203)	(2,612)
Interest expense	829	889	1,587	1,778
Other (income) expense, net	192	139	457	153
INCOME BEFORE PROVISION FOR INCOME TAXES	4,269	17,858	6,583	29,953
Provision for income taxes	1,686	7,135	2,600	11,852
NET INCOME	$ 2,583	$ 10,723	$ 3,983	$ 18,101
Income per common share:				
Basic	$ 0.03	$ 0.12	$ 0.05	$ 0.20
Diluted	$ 0.03	$ 0.12	$ 0.05	$ 0.20
Weighted average number of common shares outstanding:				
Basic	86,327	90,573	86,326	90,944
Diluted	87,474	92,005	87,486	92,300

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

	Six Months Ended December 31, 2006	2005
	(In thousands) (Unaudited)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 3,983	$ 18,101
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	21,013	19,283
Deferred taxes	12	
Impairment charges	67	
Loss on disposal of assets	99	360
Stock-based compensation	2,343	3,915
Changes in assets and liabilities, net of effects from acquisitions:		
Accounts receivable, net	(10,500)	2,621
Student notes receivable, net	(832)	1,410
Prepaid expenses and other assets	7,129	7,007
Accounts payable	(5,123)	11,040
Accrued expenses, compensation and related benefits	3,196	5,668
Prepaid tuition	6,499	11,363
Other long-term liabilities	2,408	2,591
Net cash provided by operating activities	30,294	83,359
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisitions of schools, colleges, and training centers, net of cash acquired		187
Capital expenditures, net of disposals	(34,099)	(22,774)
Change in restricted cash	10	
Proceeds from sale of assets	1,887	16,122
Purchase of / investments in marketable securities	(131,450)	(36,700)
Sales of / disposition of marketable securities	122,125	
Net cash (used in) investing activities	(41,527)	(43,165)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Principal repayments on capital lease obligations and long-term debt	(243)	(19,898)
Purchase of treasury stock	(1,458)	(43,562)
Proceeds from exercise of stock options and Employee Stock Purchase Plan	1,289	2,274
Net cash provided by (used in) financing activities	(412)	(61,186)
EFFECTS OF EXCHANGE RATE CHANGES ON CASH	(145)	288
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(11,790)	(20,704)
CASH AND CASH EQUIVALENTS, beginning of period	36,795	57,853
CASH AND CASH EQUIVALENTS, end of period	$ 25,005	$ 37,149
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		

Cash paid (received) during the period for:				
Income taxes	$	(889)	$	1,086
Interest	$	1,390	$	1,646
SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:				
Acquisitions of various schools, colleges, and training centers				
Fair value of assets acquired	$		$	
Net cash used in acquisitions				187
Liabilities assumed or incurred	$		$	187
Capital lease additions			$	2,300
Other long-term asset obligations	$	(4,300)	$	

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, 2006

Note 1 - The Company and Basis of Presentation

Corinthian Colleges, Inc. (the Company) is one of the largest for-profit, post-secondary education companies in the United States and Canada, with more than 65,400 students enrolled as of December 31, 2006. As of December 31, 2006, the Company operated 94 colleges in 24 states and 32 colleges in 7 Canadian provinces, and served the large and growing segment of the population seeking to acquire career-oriented education.

The Company offers a variety of diploma programs and associate s, bachelor s and master s degrees through five operating divisions in the U.S. and Canada concentrating on programs in allied health, business, vehicle repair and maintenance trades, criminal justice, and electronic and information technology. Additionally, the Company has an online learning alternative available to students pursuing education exclusively online.

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, 2006 consolidated financial statements of the Company included in the Company s 2006 Annual Report on Form 10-K/A 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, 2006 are not necessarily indicative of the results that may be expected for the fiscal year ending June 30, 2007.

The unaudited condensed consolidated financial statements as of December 31, 2006 and for the three and six months ended December 31, 2006 and 2005 and the audited condensed consolidated financial statements as of June 30, 2006 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, 2006 and 2005 (in thousands):

	Three Months Ended		**Six Months Ended**	
	December 31,		**December 31,**	
	2006	**2005**	**2006**	**2005**
Basic common shares outstanding	86,327	90,573	86,326	90,944
Effects of dilutive securities:				

Stock options and restricted stock units	1,147	1,432	1,160	1,356
Diluted common shares outstanding	87,474	92,005	87,486	92,300

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Share Repurchase

On October 31, 2006, Corinthian s Board of Directors approved a share repurchase of up to $50 million of the Company s common stock. Corinthian plans to repurchase shares on the open market or in private transactions from time to time, depending on the company s cash balances, general business and market conditions, and other factors, including alternative investment opportunities. As of December 31, 2006 the Company repurchased approximately 113,000 shares at an average price of $12.95.

Note 3 - Sale of Corporate Training Division

On November 8, 2005, the Company completed the sale of substantially all the assets of its corporate training division, CDI Education for CAD$19 million (USD$16 million).

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, 2006 and June 30, 2006, there were no unrealized gains or losses on available-for-sale securities.

Note 5 - Comprehensive Income

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 (loss) for the three and six month periods ended December 31, 2006 and 2005 (in thousands):

	Three Months Ended December 31,		Six Months Ended December 31,	
	2006	2005	2006	2005
Net income	$ 2,583	$ 10,723	$ 3,983	$ 18,101
Foreign currency translation adjustments	(474)	(27)	(482)	378
Comprehensive income	$ 2,109	$ 10,696	$ 3,501	$ 18,479

Note 6 - Impairment, Facility Closing, and Severance Charges

During the second quarter of 2007 the Company recognized a charge of $2.4 million. The charge consisted of facility closing costs of $0.6 million related to our campus in Victoria, British Columbia and approximately $1.8 million related to severance expenses, primarily associated with the retirement of David Moore as Chairman of the Board of Directors and employee of the Company.

During the fourth quarter of 2006 the Company made the decision to consolidate multiple brands. As a result of this decision, the Company reviewed the related intangible asset of trade name for possible impairment in accordance with SFAS 142. Based on the results of the review, the Company recognized an impairment charge of $2.3 million, which represented the entire trade name value allocated to the schools impacted by the name change. The Company also recorded a facility closing charge of $1.0 million as a result of relocating the Rancho Cucamonga, CA campus in the fourth quarter of 2006 and a severance charge of $0.9 million.

In June 2005, the Company decided to cease the implementation of the Peoplesoft Student Management System, as the Company concluded that its functionality did not meet the long-term requirements of the Company s business. As a result of this decision, the Company reviewed the related long-lived asset for possible impairment in accordance with SFAS 144 and recognized an impairment charge of $16.3 million, which approximated net book value. The Company also consolidated two campuses in Mississauga, Ontario and recorded a facility closing charge of $1.6 million and severance of $0.4 million related to restructuring of personnel.

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The table below summarizes the liability and activity for the six month period ended December 31, 2006, relating to the impairment, facility closing and severance charges identified above (in thousands):

	Severance and Benefits	Facility Related	Total
Balance at June 30, 2006	$ 838	$ 3,643	$ 4,481
Charges	1,796	583	2,379
Adjustments	(2)	(72)	(74)
Cash payments	(823)	(915)	(1,738)
Asset writedowns			
Balance at December 31, 2006	$ 1,809	$ 3,239	$ 5,048

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, 2006	Three Months Ended December 31, 2005	Six Months Ended December 31, 2006	Six Months Ended December 31, 2005
Revenues from unaffiliated customers				
U.S. operations	$ 221,901	$ 220,037	$ 431,797	$ 430,973
Canadian operations	23,146	24,430	45,052	49,788
Consolidated	$ 245,047	$ 244,467	$ 476,849	$ 480,761

	December 31, 2006	June 30, 2006
Long-lived assets		
U.S. operations	$ 393,956	$ 393,054
Canadian operations	65,099	61,950
Consolidated	$ 459,055	$ 455,004

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 occasional lawsuits, investigations and claims, including, but not limited to, claims involving students and 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 May 7, 2004, the Company received another putative class action complaint entitled *Jennifer Baker, et al. v. Corinthian Colleges, Inc. and Florida Metropolitan University, Inc.* and 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 *Baker* complaint named nine plaintiffs while 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 *Baker*, *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 believes the other complaints are likewise without merit and will vigorously defend itself, Rhodes Colleges, Inc., and FMU against these allegations. The Company has filed motions to compel arbitration in *Baker* and *Alvarez*, and the *Travis* court compelled that case to arbitration.

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 have been 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. 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.

The California Attorney General s Office (the CAG) first requested that the Company provide documentation regarding three of its California Bryman Colleges and certain other general Company policies and procedures in June 2004. Since that time, the CAG has requested supplemental information on several occasions, most recently in January 2007. Additionally, the Company s attorneys received a letter from the CAG dated May 1, 2006 in which the CAG stated that it appeared to the CAG that the Company s practices have been and are in violation of the California Business and Professions Code and the California Education Code regarding the Company s advertising, marketing and sale of its programs to California consumers. Company representatives have met with attorneys from the CAG s office on multiple occasions since June 2006. At these meetings, attorneys from the CAG s office have stated their belief that the Company s California campuses have incorrectly calculated and reported their student placement rates so as to violate the California Educational Code and the California Business and Professions Code. The CAG also stated its belief that the Company has not met minimum placement requirements under California law for certain of its diploma programs. The Company has engaged in discussions with the CAG s office regarding a possible settlement, although the Company cannot provide assurances that it will be able to settle this matter short of litigation. The Company expects that if it is unable to resolve this matter through a settlement, the CAG s office will file a lawsuit against the Company alleging violations of the California Education Code and the California Business and Professions Code. In such a suit, the CAG s office may seek restitution on behalf of the Company s former students, damages, civil penalties, fines, injunctive relief and/or revocation of the Company s schools licenses. The Company is continuing to cooperate with the inquiry.

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 February 2005, the Company was served with a lawsuit entitled *Nancy Tsai v. Corinthian Colleges, Inc., et al.,* filed by twenty-four current or former medical assisting students from the Company s National Institute of Technology campus in Long

Beach, California, alleging fraud in the inducement, breach of contract, breach of the implied covenant of good faith and fair dealing, and violation of California Business and Professions Code Section 17200, regarding alleged misrepresentations about the eligibility of such students to take the Certified Medical Assistant examination. The complaint does not seek certification as a class action. The Company has filed demands in arbitration against each of the individual plaintiffs for breach of their contractual obligation to arbitrate rather than litigate disputes with the Company and has prevailed on its motion with the California Superior Court to compel the plaintiffs to binding arbitration. The Company intends to vigorously defend itself in this matter.

On April 6, 2005, the Company was served with a lawsuit entitled *Jaclyn Fisher, et al. v. Corinthian Colleges, Inc.*, filed by forty-one current or former medical assisting students from the Company s Bryman College campus in Tacoma, Washington, dating back to before the Company acquired the campus. The plaintiffs allege negligent/intentional misrepresentations and violations of the state consumer protection act regarding alleged misrepresentations about the eligibility of such students to take the Certified Medical Assistant exam. The complaint does not seek certification as a class action. The Company removed the case to federal court and prevailed on its motion to compel twenty-one of the plaintiffs with arbitration provisions to binding arbitration. Additional individual lawsuits in federal and state court in Washington and demands in arbitration have been filed by the same counsel to the original forty-one plaintiffs which contain virtually identical allegations, and which raise the total number of students involved to more than one hundred and ten. The additional students are primarily from the Company s Bryman, Tacoma campus, but are also alleged to have attended the Bryman campuses in Lynwood and Renton, Washington. More than forty individual student cases have been resolved in arbitration, with the Company prevailing in twenty of those matters and with the plaintiffs receiving awards that are immaterial to the Company s financial statements in the other matters. The Company intends to continue its vigorous defense in the remaining related cases.

On November 17, 2005, Florida Metropolitan University, Inc. (FMUI), a wholly-owned subsidiary of the Company, received an investigative records subpoena from the Florida Attorney General s office (the FL AG) regarding advertising and marketing practices of FMUI. The subpoena requested documents from the past five years generally related to advertisements, training of admissions representatives, complaints, identity and compensation of admissions representatives, identity of directors and officers of FMUI, and pending and concluded litigation. Subsequently, the Company has received another records subpoena related primarily to student academic matters and outcomes, employee information, course prices and marketing materials. The FL AG has also requested additional information via correspondence. Company representatives have met with attorneys from the Florida Attorney General s office on two occasions. To the Company s knowledge, the Attorney General s office has not asserted any claims against the Company or FMUI. The Company and FMUI expect to cooperate with the inquiry.

On January 31, 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 claims to represent an additional twelve former surgical technologist students at this campus. The plaintiffs allege negligent/intentional misrepresentations/omissions and violations of the state consumer protection act regarding alleged misrepresentations about the program. The complaint does not seek certification as a class action. The Company has removed this case to federal court and the court has dismissed the complaint and compelled the plaintiffs to binding arbitration. The Company intends to vigorously defend itself in this matter.

On July 7, 2006, the Company s Board of Directors established a special committee (the Special Committee) to conduct an independent review of the Company s historic stock option grants dating back to the Company s initial public offering in 1999. The Company voluntarily informed the Securities and Exchange Commission (the SEC) of its review, and, on August 11, 2006, the SEC informed the Company that it had begun an informal inquiry into the Company s practices, procedures and disclosures related to its historic stock option grants. The Special Committee has now completed its review and has reported its findings and conclusions to the SEC. The Company continues to cooperate with the SEC in its inquiry.

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

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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 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 December 31, 2006, the Company had established aggregate reserves that are immaterial to the financial condition of the Company 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. 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.

Other

As a result of the issues identified in the Company s review of its past stock option practices, certain of the Company s option grants which were previously characterized as Incentive Stock Options in accordance with Internal Revenue Code Section 422 (ISOs) are now considered to be non-qualified stock options. The Company may have liabilities related to employment taxes resulting from the gains its employees made on the exercise of such options. The Company may also have tax liabilities associated with previously deducted compensation related to exercised stock options which may now be considered to be non-deductible under Section 162(m) of the Internal Revenue Code. The Company may be required to pay additional taxes and interest associated with employment taxes and previous compensation deductions in connection with such exercised stock options under Section 162(m). The Company has accrued a liability for such contingent obligations. Although the Company has based its accrual on its current estimate of these liabilities, there is no assurance that such liabilities will not exceed its accrual.

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Note 9 - New Accounting Pronouncements

In June, 2006 the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes (FIN 48). FIN 48 clarifies, among other things, the accounting for uncertain income tax positions by prescribing a minimum probability threshold that a tax position must meet before a financial statement income tax benefit is recognized. The minimum threshold is defined as a tax position, that based solely on its technical merits is more likely than not to be sustained upon examination by the relevant taxing authority. The tax benefit to be recognized is measured as the largest amount of benefit that is greater than fifty percent likely of being realized upon ultimate settlement. FIN 48 must be applied to all existing tax positions upon adoption. The cumulative effect of applying FIN 48 at adoption is required to be reported separately as an adjustment to the opening balance of retained earnings in the year of adoption. FIN 48 is required to be implemented at the beginning of a fiscal year and is effective for Corinthian Colleges for fiscal 2008, although early adoption is permitted. We have not yet determined the impact of adopting FIN 48 on our financial statements.

In May 2005, the FASB issued Statement of Financial Accounting Standards No. 154, Accounting Changes and Error Corrections (SFAS 154). This statement replaces APB Opinion No. 20, Accounting Changes, and SFAS No. 3, Reporting Accounting Changes in Interim Financial Statements. SFAS 154 changes the requirements for the accounting for and reporting of a change in accounting principle. For Corinthian Colleges, SFAS 154 is effective for accounting changes made beginning in fiscal year 2007.

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 158, Employers Accounting for Defined Benefit Pension and Other Postretirement Plans an amendment of FASB Statements No. 87, 88, 106 and 132(R) (SFAS 158). SFAS 158 requires an employer to recognize the overfunded or underfunded status of a defined benefit postretirement plan as an asset or liability in its statement of financial position and recognize changes in the funded status in the year in which the changes occur. SFAS 158 is effective for fiscal years ending after December 15, 2006. The Company does not expect the adoption of SFAS 158 to have a material effect on its financial condition or results of operations.

Effective July 1, 2005, the Company early implemented Staff Accounting Bulletin No. 108, Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements (SAB 108). The early implementation is more fully discussed within Note 2 of the Company s previously filed Form 10-K/A.

Note 10 - Other Matters

Stock-based Compensation

In accordance with SFAS No. 123(R) the Company s estimate of forfeitures should be adjusted as actual forfeitures differ from its estimates, resulting in the recognition of compensation costs only for those awards that actually vest. Accordingly during the second quarter of fiscal 2007, the Company adjusted its estimated forfeiture rate to reflect actual experience. As a result of the change in estimate, the Company recorded net stock-based compensation expense of approximately $154,000 during the second quarter of fiscal 2007.

NASDAQ Staff Determination Letter

The Company received NASDAQ Staff Determination letters in October and November 2006 stating that the Company s common stock was subject to delisting from the NASDAQ Global Select Market for failure to file its fiscal 2006 Report on Form 10-K/A and first quarter 2007 Report on Form 10-Q, respectively. During December 2006, the Company received a letter from NASDAQ stating that the NASDAQ Qualification Panel has found the Company in compliance with all applicable NASDAQ listing standards and will continue listing the Company s shares on the NASDAQ Stock Market.

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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 changes in governmental regulations, including those governing student financial aid, the effect of competitive pressures on the Company s tuition pricing, integration risks associated with acquired campuses 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/A (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/A.

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.

We believe the following critical accounting policies affect our more significant judgments and estimates used in the preparation of our condensed consolidated financial statements:

Revenue Recognition. Revenues consist primarily of tuition and fees derived from courses taught in our colleges, schools, and training centers. Revenues from tuition and fees are recognized pro-rata (on a straight-line basis) over the relevant period attended by the student of the applicable course or program. Our pro-rata revenue recognition policy for diploma schools calculates revenue on a daily basis for some of the Company s schools and using a mid-month convention for other schools. If a student withdraws from a course or program, the paid but unearned portion of the student s tuition is refunded. Textbook sales and other revenues are recognized as sales occur or services are performed and represent less than 10% of total revenues. Prepaid tuition is the portion of payments received but not earned and is reflected as a current liability in the accompanying consolidated balance sheets as this amount is expected to be earned within the next year.

Students attending our post-secondary institutions enroll in either (i) diploma programs, which cover a specific area of training over a discrete length of time (averaging nine months for such programs) or (ii) courses leading to an associate s, bachelor s or master s degree. Costs of programs or credit hours for courses are clearly identified in our enrollment agreements. At the start of each student s respective program or courses of study leading to a degree, the student executes an enrollment agreement which specifies the field of study, the expected length of study, and the cost of the program or courses. We recognize revenue from tuition and fees on a straight-line basis over the relevant period attended by the student of the applicable course or program of study. If a student withdraws from an institution, we cease the recognition of revenue and the paid but unearned portion of the student s tuition is refunded. Additionally, to ensure the delivery of education has occurred, either attendance is taken or academic events are conducted at appropriate intervals to ensure that the student is completing his or her respective field of study within the acceptable time period.

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

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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.

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 141) and requirements set forth by the Uniform Standards of Professional Appraisal Practice.

Effective July 1, 2002, we adopted SFAS No. 142, Goodwill and Other Intangible Assets (SFAS 142). This standard changed the accounting for goodwill and other indefinite-lived intangible assets from an amortization method to an impairment-only approach. 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 met the indefinite life criteria outlined in SFAS 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 ten years and the amortization is included in general and administrative expenses in the accompanying consolidated statements of operations.

Under SFAS 142, 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 142. We determined the fair value of our reporting units using the income approach of valuation 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.

Also, under SFAS 142, 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.

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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 at least annually or more frequently if circumstances indicate.

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 employment-related 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 fiscal 2006, we adopted Statement of Financial Accounting Standards (SFAS) No. 123, Accounting for Stock-Based Compensation , in accordance with the modified prospective transition method prescribed in SFAS No. 148, *Accounting for Stock-Based Compensation Transition and Disclosure* and began recognizing compensation expense for stock options which vested during the first quarter of fiscal 2006.

Results of Operations

Comparisons of results of operations between the first six months of fiscal 2007 and the first six months of fiscal 2006 are affected by the opening of three branch campuses in fiscal 2006.

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

	Three Months Ended December 31, 2006	Three Months Ended December 31, 2005	Six Months Ended December 31, 2006	Six Months Ended December 31, 2005
Statement of Operations Data (Unaudited):				
Net revenues	100.0%	100.0%	100.0%	100.0%
Operating expenses:				
Educational services	57.8	55.5	58.6	56.9
General and administrative	12.6	10.1	12.3	10.0
Marketing and admissions	27.2	27.3	27.4	27.0
Impairment, facility closing and severance charges	1.0		0.5	
Total operating expenses	98.5	92.9	98.9	93.9
Income from operations	1.5	7.1	1.1	6.1
Interest (income)	(0.7)	(0.6)	(0.7)	(0.5)
Interest expense	0.3	0.3	0.3	0.4
Other (income) expense	0.1	0.1	0.1	0.0
Income before provision for income taxes	1.7	7.3	1.4	6.2
Provision for income taxes	0.7	2.9	0.5	2.4
Net income	1.1%	4.4%	0.8%	3.8%

Three Months Ended December 31, 2006 Compared to Three Months Ended December 31, 2005

Net Revenues. Net revenues increased $0.6 million, or 0.2%, from $244.5 million in the second quarter of fiscal 2006 to $245.1 million in the second quarter of fiscal 2007. Excluding our corporate training division, CDI Education, which was sold in October 2005, revenue increased $3.0 million or 1.3% in the second quarter of fiscal 2007 when compared to the second quarter of fiscal 2006. The increase was due to an approximate 4% increase in the average tuition rate per student partially offset by a 2.2% decrease in average student population during the period. At December 31, 2006, student population was 65,431, compared with 66,319 at December 31, 2005. Total student starts increased 0.8% to 21,554 for the second quarter of fiscal 2007 when compared to the second quarter of last year.

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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 $6.0 million, or 4.4%, from $135.7 million in the second quarter of fiscal 2006 to $141.7 million in the second quarter of fiscal 2007. As a percentage of net revenues, educational services expenses increased from 55.5% of revenues in the second quarter of fiscal 2006 to 57.8% of revenues in the second quarter of fiscal 2007. The increase, as a percent of revenues, was due primarily to an increase in facility and bad debt expenses. As of December 31, 2006, we had approximately 79 square feet of school space per student as compared to 70 square feet of school space per student as of December 31, 2005. As the costs of operating our facilities are largely fixed in nature, this lower level of capacity utilization negatively affected educational services expenses as a percent of revenues. Bad debt expense for the second quarter of fiscal 2007 amounted to $15.2 million or 6.2% of net revenues, compared to $13.3 million or 5.4% of net revenues for the second quarter of fiscal 2006. We believe the reasons for the increase in bad debt expense are largely operational in nature, related primarily to inefficient financial management at the school level. This inefficiency included untimely processing of financial aid packaging and less effective collection efforts directly from students.

Additionally, during the second quarter of 2007, 19 programs from current curricula were added to our schools; 15 programs were added in the U.S. and 4 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 increased $6.2 million, or 25.2%, from $24.6 million in the second quarter of fiscal 2006 to $30.8 million in the second quarter of fiscal 2007. As a percentage of net revenues, general and administrative expenses increased from 10.1% of revenues in the second quarter of fiscal 2006 to 12.6% of revenues in the second quarter of fiscal 2007. The increase is a result of an increase in litigation reserves of approximately $4.0 million primarily related to the California Attorney General s investigation; and outside professional service fees of approximately $3.5 million related to the review of historic stock option grants by the Special Committee of the Board of Directors.

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 decreased $0.2 million, or 0.3%, from $66.8 million in the second quarter of fiscal 2006 to $66.6 million in the second quarter of fiscal 2007. As a percentage of net revenues, marketing and admissions expenses slightly decreased from 27.3% of revenues in the second quarter of fiscal 2006 to 27.2% of revenues for the second quarter of fiscal 2007.

Impairment, Facility Closing and Severance Charges. During the second quarter of 2007 the Company recognized a charge of $2.4 million. The charge consisted of facility closing costs of $0.6 million related to our campus in Victoria, British Columbia and approximately $1.8 million related to severance expenses, primarily associated with the retirement of David Moore as Chairman of the Board of Directors and employee of the Company.

Income from Operations. Income from operations decreased $13.9 million or 79.4% from $17.5 million in the second quarter of fiscal 2006 to $3.6 million in the second quarter of fiscal 2007. As a percentage of net revenues, income from operations decreased from 7.1% of revenues in the second quarter of fiscal 2006 to 1.5% of revenues for the second quarter of fiscal 2007. The decrease in income from operations, as a percent of revenues, is a result of the factors discussed above.

Interest (Income) Expense, net. Interest income (net of interest expense of $0.8 million) amounted to $0.9 million in the second quarter of fiscal 2007. In the same period of the prior year, interest income (net of interest expense of $0.9 million) amounted to $0.5 million. The increase in net interest income compared to the prior year is primarily due to an increase in interest income due to an increase in investment yield.

Provision for Income Taxes. The effective income tax rate was 39.5% of income before taxes in the second quarter of fiscal 2007 compared to 40.0% in the second quarter of fiscal 2006.

Net Income. Net income decreased $8.1 million from $10.7 million in the second quarter of fiscal 2006 to $2.6 million in the second quarter of fiscal 2007. As a percentage of net revenues, net income decreased from 4.4% of revenues in the second quarter of fiscal 2006 to 1.1% of revenues for the second quarter of fiscal 2007 for the reasons previously discussed.

Income per Share. Diluted earnings per common share for the second quarter of fiscal 2007 decreased 75% to $0.03 per diluted common share compared to $0.12 per diluted common share for the second quarter of fiscal 2006.

Six Months Ended December 31, 2006 Compared to Six Months Ended December 31, 2005

Net Revenues. Net revenues decreased $4.0 million, or 0.8%, from $480.8 million in the first six months of fiscal 2006 to $476.8 million in the first six months of fiscal 2007, due primarily to the sale of our corporate training division, CDI Education, in October 2005. Excluding our corporate training division, CDI Education, which was sold in October 2005, revenue increased 0.9% in the first six months of fiscal 2007 when compared to the first six months of fiscal 2006. The increase was due to an approximate 4% increase in the average tuition rate

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per student partially offset by a 3.1% decrease in average student population during the period. At December 31, 2006, student population was 65,431, compared with 66,319 at December 31, 2005. Total student starts decreased 0.4% to 47,956 for the first six months of fiscal 2006 when compared to the first six months 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 $6.0 million, or 2.2%, from $273.4 million in the first six months of fiscal 2006 to $279.4 million in the first six months of fiscal 2007. As a percentage of net revenues, educational services expenses increased from 56.9% of revenues in the first six months of fiscal 2006 to 58.6% of revenues in the first six months of fiscal 2007. The increase, as a percent of revenues, was due primarily to a decrease in net revenue and an increase in facility and bad debt expenses. As of December 31, 2006, we had approximately 79 square feet of school space per student as compared to 70 square feet of school space per student as of December 31, 2005. As the costs of operating our facilities are largely fixed in nature, this lower level of capacity utilization negatively affected educational services expenses as a percent of revenues. Bad debt expense for the first six months of fiscal 2007 amounted to $27.9 million or 5.9% of net revenues, compared to $26.8 million or 5.6% of net revenues for the first six months of fiscal 2006. We believe the reasons for the increase in bad debt expense are largely operational in nature, related primarily to inefficient financial management at some of our schools. This inefficiency included untimely processing of financial aid packaging and less effective collection efforts directly from students.

Additionally, during the first six months of 2007, 41 programs from current curricula were added to our schools; 33 programs were added in the U.S. and 8 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 increased $10.5 million, or 21.8%, from $48.2 million in the first six months of fiscal 2006 to $58.7 million in the first six months of fiscal 2007. As a percentage of net revenues, general and administrative expenses increased from 10.0% of revenues in the first six months of fiscal 2006 to 12.3% of revenues in the first six months of fiscal 2007. The increase was primarily the result of increases in travel-related costs associated with training and implementation of a new admissions process, outside professional service fees of approximately $5.3 million related to the review of historic stock option grants by the Special Committee of the Board of Directors, and an increase in litigation reserves of approximately $4.0 million, primarily related to the California Attorney General s investigation.

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 $1.1 million, or 0.8%, from $129.8 million in the first six months of fiscal 2006 to $130.9 million in the first six months of fiscal 2007. As a percentage of net revenues, marketing and admissions expenses increased from 27.0% of revenues in the first six months of fiscal 2006 to 27.4% of revenues for the first six months of fiscal 2007 primarily as a result of increases in advertising costs.

Impairment, facility closing and severance charges. During the second quarter of 2007 the Company recognized a charge of $2.4 million. The charge consisted of facility closing costs of $0.6 million related to our campus in Victoria, British Columbia and approximately $1.8 million related to severance expenses, primarily associated with the retirement of David Moore as Chairman of the Board of Directors and employee of the Company.

Income from Operations. Income from operations decreased $23.9 million or 81.6% from $29.3 million in the first six months of fiscal 2006 to $5.4 million in the first six months of fiscal 2007. As a percentage of net revenues, income from operations decreased from 6.1% of revenues in the first six months of fiscal 2006 to 1.1% of revenues for the first six months of fiscal 2007. The decrease in income from operations, as a percent of revenues, is a result of the factors discussed above.

Interest (Income) Expense, net. Interest income (net of interest expense of $1.6 million) amounted to $1.6 million in the first six months of fiscal 2007. In the same period of the prior year, interest income (net of interest expense of $1.8 million) amounted to $0.8 million. The increase in net interest income compared to the prior year is primarily due to an increase in interest income due to an increase in investment yield.

Provision for Income Taxes. The effective income tax rate was 39.5% of income before taxes in the first six months of fiscal 2007 compared to 39.6% in the first six months of fiscal 2006.

Net Income. Net income decreased $14.1 million or 77.9% from $18.1 million in the first six months of fiscal 2006 to $4.0 million in the first six months of fiscal 2007. As a percentage of net revenues, net income decreased from 3.8% of revenues in the first six months of fiscal 2006 to 0.8% of revenues for the first six months of fiscal 2007 for the reasons previously discussed.

Income per Share. Diluted earnings per common share for the first of fiscal 2007 decreased 75% to $0.05 per diluted common share compared to $0.20 per diluted common share for the first six months of fiscal 2006.

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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 and student attrition. Historically, our colleges, schools, and training centers 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 June 8, 2005, we amended and restated our credit facility. The amount of the facility remained at $235 million, of which $175 million is a domestic facility and $60 million is a Canadian facility. The second amended and restated credit agreement expires in 2010. The second amended and restated credit agreement 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 agreement 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 agreement contains customary affirmative and negative covenants including financial covenants requiring the maintenance of consolidated net worth, fixed charge coverage ratios, leverage ratios, and a DOE financial responsibility composite score ratio. As of December 31, 2006, we were in compliance with all of the covenants. As of December 31, 2006, the credit facility had borrowings outstanding of $30.0 million and approximately $11.3 million was used to support standby letters of credit. The second amended and restated credit agreement 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 $51.5 million as of December 31, 2006 and $53.9 million as of June 30, 2006 and the current ratio was 1.3:1 for both periods.

Cash flows provided by operating activities amounted to $30.3 million in the first six months of fiscal 2007 compared to $83.4 million provided by operating activities in the same period of fiscal 2006. The decrease in cash provided by operating activities for the first six months of fiscal 2007 compared to the first six months of fiscal 2006 was primarily due to: a reduction in net income of $14.1 million; an increase in accounts receivable primarily as a result of reimbursement status at our GMI campuses; and a decrease in accounts payable primarily as a result of the payable for treasury shares we had at December 31, 2005 as well as timing of payments.

Cash flows used in investing activities amounted to $41.5 million in the first six months of fiscal 2007 compared to cash flows used in investing activities of $43.2 million in the first six months of fiscal 2006. Cash was used in the six months of fiscal 2007 primarily for capital expenditures net of disposals of $34.1 million and to invest in short-term investments for $9.3 million. Cash was used in the first six months of fiscal 2006 to invest in short-term investments for $36.7 million and capital expenditures net of disposals of $22.8 million. Additionally, we received $15.9 million related to the sale of our corporate training division. Capital expenditures in fiscal 2007 were incurred primarily for relocations, remodels and enlargements of existing campuses and to fund information systems expenditures. We expect capital expenditures to be approximately $65 million for fiscal 2007.

Cash flows used in financing activities in the first six months of fiscal 2007 amounted to approximately $0.4 million compared to cash flows used in financing activities of $61.2 million for the first six months of fiscal 2006. The decrease in cash used in financing activities in the first six months of fiscal 2007 compared to the same period last year was due primarily to a decrease in purchases of treasury stock and a decrease in debt repayments. We funded our cash needs through cash flow provided from operations.

Update Regarding Regulatory and Accreditation Matters

As the Company has previously reported, the Company s National Institute of Technology (NIT) campus in San Antonio, Texas had received a Show Cause order from ACCSCT. In a letter dated June 9, 2006, ACCSCT continued the Show Cause order at the NIT campus in San Antonio. The Company s response to the Show Cause order will be considered at ACCSCT s next Commission meeting.

The Company has also previously reported that it had received Show Cause orders from ACCSCT regarding its Bryman College campus at LA Wilshire and its NIT campus in Dearborn, Michigan. In a letter from ACCSCT dated December 8, 2006, the Company was informed that the Show Cause order was removed at Bryman College, LA Wilshire. In another letter from ACCSCT on December 19, 2006, the Company was informed that the Show Cause order was removed at the Dearborn campus.

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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, 2006, our only assets or liabilities subject to risks from interest rate changes are (i) mortgage debt and debt under the credit facility in the aggregate amount of $31.1 million and capital lease obligations of $14.3 million, and (ii) student notes receivable, net, in the aggregate amount of $6.7 million. Our mortgage debt, 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, 2006 was CAD $46.7 million which includes borrowings outstanding under the credit facility of CAD $35.0 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, 2006 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/A for the year ended June 30, 2006.

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.
February 9, 2007	/s/ JACK D. MASSIMINO **Jack D. Massimino** **President and Chief Executive Officer** **(Principal Executive Officer)**
February 9, 2007	/s/ KENNETH S. ORD **Kenneth S. Ord** **Executive Vice President and Chief Financial Officer** **(Principal Financial Officer)**
February 9, 2007	/s/ ROBERT C. OWEN **Robert C. Owen** **Senior Vice President and Chief Accounting Officer** **(Principal Accounting Officer)**