CORINTHIAN COLLEGES INC
Form 10-Q
November 09, 2007
Table of Contents

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 SEPTEMBER 30, 2007

OR

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

For the transition period from ______ to ______

Commission file number 0-25283

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

Table of Contents

CORINT HIAN COLLEGES, INC. AND SUBSIDIARIES

INDEX TO FORM 10-Q

For the First Quarter Ended September 30, 2007

		Page No.
PART I FINANCIAL INFORMATION		
Item 1.	Financial Statements	
	Condensed Consolidated Balance Sheets at September 30, 2007 (Unaudited) and June 30, 2007	3
	Condensed Consolidated Statements of Operations for the three months ended September 30, 2007 and 2006 (Unaudited)	4
	Condensed Consolidated Statements of Cash Flows for the three months ended September 30, 2007 and 2006 (Unaudited)	5
	Notes to Unaudited Condensed Consolidated Financial Statements	6
Item 2.	Management s Discussion and Analysis of Financial Condition and Results of Operations	12
Item 3.	Quantitative and Qualitative Disclosure about Market Risk	17
Item 4.	Controls and Procedures	17
PART II OTHER INFORMATION		
Item 1.	Legal Proceedings	18
Item 1A.	Risk Factors	18
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	18
Item 3.	Defaults Upon Senior Securities	18
Item 4.	Submission of Matters to a Vote of Security Holders	18
Item 5.	Other Information	18
Item 6.	Exhibits	18
SIGNATURES		19

EXPLANATORY NOTE

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

Table of Contents

PART I FINANCIAL INFORMATION

Item 1. Financial Statements

CORINTHIAN COLLEGES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

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

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

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

Table of Contents

CORINTHIAN COLLEGES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

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

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

Table of Contents

CORINTHIAN COLLEGES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

FROM CONTINUING AND DISCONTINUED OPERATIONS

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

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:

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

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

Table of Contents

CORINTHIAN COLLEGES, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2007

Note 1 The Company and Basis of Presentation

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

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

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

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

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

Note 2 Weighted Average Number of Common Shares Outstanding

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

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

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

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

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

Share Repurchase

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

Note 3 Discontinued Operations

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

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

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

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

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