

CORINTHIAN COLLEGES INC  
Form 10-K  
August 29, 2007  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**

\_\_\_\_\_  
**FORM 10-K**  
\_\_\_\_\_

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
FOR THE FISCAL YEAR ENDED JUNE 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**  
(State or other jurisdiction of

**33-0717312**  
(I.R.S. Employer

Incorporation or organization)

Identification No.)

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

**www.cci.edu**

(Address of principal executive offices)

**92707**

(Zip Code)

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(714) 427-3000

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

| Title of each class                        | Name of each exchange on which registered |
|--|---|
| Common Stock, \$0.0001 par value per share | Nasdaq National Stock Market              |

Securities registered pursuant to Section 12(g) of the Act: None

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Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer  Non-accelerated filer

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

As of December 31, 2006, the aggregate market value of voting and non-voting common equity held by non-affiliates of the registrant was approximately \$1.18 billion, based upon the closing sales price of the Common Stock as reported on Nasdaq National Stock Market on such date. For this computation, the Company has excluded the market value of all common stock beneficially owned by all executive officers and directors of the Company and their associates as a group. This determination of affiliate status for purposes of this computation is not necessarily a conclusive determination for other purposes. As of August 23, 2007, the number of outstanding shares of voting and non-voting common equity of the registrant was approximately 84,596,516.

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**INTRODUCTION AND NOTE ON FORWARD LOOKING STATEMENTS**

Corinthian Colleges, Inc. (hereinafter the Company or Corinthian ) is a Delaware corporation; its principal executive offices are located at 6 Hutton Centre Drive, Suite 400, Santa Ana, California 92707.

You should keep in mind the following points as you read this Report on Form 10-K:

the terms we, us, our or the Company refer to Corinthian Colleges, Inc. and its subsidiaries;

the terms school, college, campus, or university refer to a single location of any school;

the term institution means a main campus and its additional locations, as such are defined under the regulations of the U.S. Department of Education, which we sometimes refer to herein as the ED ; and

our fiscal year ends on June 30; references to fiscal 2007, fiscal 2006 and fiscal 2005 and similar constructions refer to the fiscal year ended on June 30 of the applicable year.

This Annual Report on Form 10-K contains statements which, to the extent they do not recite historical fact, constitute forward looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Forward looking statements are used under the captions Business, Governmental Regulations and Financial Aid , Risk Factors, Legal Proceedings, Management s Discussion and Analysis of Financial Condition and Results of Operations , and elsewhere in this Annual Report on Form 10-K. You can identify these statements by the use of words like may, will, could, should, project, believe, anticipate, expect, plan, estimate, forecast, potential, intend, continue, and variations of these words or comparable words. Forward looking statements do not guarantee future performance and involve risks and uncertainties. Actual results may differ substantially from the results that the forward looking statements suggest for various reasons, including those discussed under the caption Risk Factors. These forward looking statements are made only as of the date of this Annual Report on Form 10-K. We do not undertake to update or revise the forward looking statements, whether as a result of new information, future events or otherwise.

**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 and campuses 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.

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the Company s definitive Proxy Statement for the 2007 Annual Meeting of Stockholders, which will be filed with the Securities and Exchange Commission not later than 120 days after June 30, 2007, are incorporated by reference into Part III of this report.

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**PART I**

**ITEM 1. BUSINESS**

**Overview**

Our company is one of the largest for-profit, post-secondary education companies in the United States and Canada, with more than 62,115 students enrolled as of June 30, 2007. As of June 30, 2007, we operated 93 schools in 24 states, 17 schools in the province of Ontario, Canada, and served the large and growing segment of the population seeking to acquire career-oriented education. Our schools generally enjoy long operating histories. We offer a variety of diploma programs and associate's, bachelor's and master's degrees through a single operating segment (refer to Note 1 of the accompanying consolidated financial statements for more information).

Historically, we have grown our business through acquisitions as well as through organic growth. Organic growth consists of opening new branch campuses, remodeling, expanding or relocating existing campuses and adopting curricula into existing colleges. Since the Company's formation in 1995, we have acquired 76 colleges (net of closures, discontinued operations, consolidations, and expected sales) and we have opened 34 branch campuses.

**Operating Strategy**

Key elements of our operating strategy include the following components:

*Emphasize Student Outcomes.* We believe that positive student outcomes are a critical component of our long-term success. Accordingly, we devote substantial resources to maintaining and improving our retention and placement rates. Modest increases in student retention can have a significant impact on our profitability, and high graduation and placement rates enhance a school's reputation and the marketability of its programs, and increase referrals. We have implemented a variety of student service programs, including orientation and tutoring, academic advising, ride-sharing and referral programs, all of which are designed to improve student retention to assist our students in achieving their career goals. We utilize a curriculum development team comprised of campus representatives, corporate program directors and textbook publishers, which is assisted by the advisory board comprised of local business professionals, to help ensure that our curricula provide our students with the skills required by employers. We also maintain dedicated, career services personnel at our schools that undertake extensive placement efforts, including identifying prospective employers, helping students prepare resumes, conducting practice interviews, establishing externship programs and tracking students' placement success on a monthly basis.

*Create a Supportive Learning Environment.* We view our students as customers and seek to provide a supportive learning environment where student satisfaction is achieved. We offer a flexible schedule of classes, providing our students with the opportunity to attend classes throughout the day, as well as nights and weekends. Schools operate year-round, permitting students to complete their course of study quickly. We maintain reasonable class sizes and focus the efforts of our faculty on teaching students rather than research. Personal interaction between students and faculty is encouraged and we offer several support programs, such as on-campus advising and tutoring, which are designed to help students successfully complete their courses of study. We also maintain a toll-free student hotline to address and help resolve student concerns.

*Focus on Attractive Markets.* We design our educational programs to benefit from favorable demographic and labor market trends. Our colleges offer both degree and diploma programs in healthcare, business, and technology related fields, allowing us to capitalize on the growth in job opportunities in these industries. Our geographic strategy is to build a strong competitive position in attractive and growing local markets where we can take advantage of operating efficiencies and benefit from favorable demographic trends.

*Centralize Key Functions.* In order to capitalize on the experience of our senior management team and to encourage best practices, we have established a regional management organization consisting of local school administrators, regional vice presidents of operations and admissions, and division presidents. Local and regional operations are supported by centralized functions supervised by senior management at our campus support center.

Local school administrators retain control of the day-to-day operations of their individual schools. Local school administrators are assisted by and receive oversight from regional vice presidents and division presidents and their respective support teams. The campus support center management team controls key operational functions such as accounting, information technology, student financial services management, marketing, curriculum development, staff training, the call center, legal, treasury, internal audit, human resources, payroll, purchasing, real estate, and accreditation and licensing which we believe enables us to achieve significant operating efficiencies. For example, our campus support center



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management team controls the marketing and advertising function and utilizes our information technology systems to analyze the effectiveness of our marketing efforts and to make timely and efficient decisions regarding the allocation of marketing resources to individual colleges.

### **Growth Strategy**

Our growth strategy consists of the following components:

#### ***Enhance Growth at Existing Campuses.***

*Integrated and Centralized Marketing Program.* We employ an integrated marketing program that utilizes an extensive direct response advertising campaign delivered through television, the Internet, newspaper, and direct mail. A professional marketing staff at our campus support center coordinates marketing efforts with advertising agencies and utilizes our in-bound call center and our lead-tracking capability.

*Curriculum Expansion and Development.* We develop, refine and acquire curricula based on market research and recommendations from our faculty, advisory board members and our curriculum development team. We believe considerable opportunities exist for curriculum adoption and we expect to continue to acquire and develop new curricula and selectively adopt existing curricula into both existing and new locations. In fiscal 2007, we successfully adopted 58 programs into existing U.S. schools and 14 programs into existing Canadian schools.

*Facilities Enhancement and Expansion.* We remodel, expand and relocate our existing colleges to ensure we have sufficient capacity to meet our expected enrollment demand, as well as to improve the location and appearance of our facilities. We expect to continue to systematically remodel and relocate selected colleges within their respective markets. Since 2003, 32 colleges have been relocated and an additional 107 campuses have been either remodeled or enlarged. We believe modern attractive education environments enhance our students' learning experience. During fiscal 2007, we remodeled, relocated, or expanded 8 colleges. As of June 30, 2007, the total square footage of all our properties was approximately 4.8 million square feet.

#### ***Expand On-line Education.***

Online education, or education delivered via the Internet, has become an increasingly important component of the higher education market. We offer online learning to two categories of students: those attending online classes exclusively, and those attending a blend of traditional classroom and online courses. The majority of our students participating in online learning are now registered in exclusively online programs.

We began enrolling exclusively online students through our Florida Metropolitan University ( FMU ) colleges in fiscal 2002. In the fourth quarter of fiscal 2005, we started to offer exclusively online degrees through our regionally-accredited Everest College in Phoenix, Arizona. Online degree programs are offered in business, criminal justice, accounting, higher education management, criminal investigations, applied management, homeland security, computer information science, and medical insurance billing and coding. In total, 18 accredited degrees are available exclusively online at the master's, bachelor's, and associate's levels.

During fiscal 2007 we experienced a significant increase in the number of students taking our online courses. Our online learning participation increased by approximately 28% to 107,111 course registrations in fiscal 2007. As of June 30, 2007, we offered 259 online courses through 30 campuses serving approximately 8,015 exclusively online students.

#### ***Make Strategic Acquisitions.***

Since our founding in 1995, acquisitions have been an important part of our growth strategy. Of the 110 campuses operated as of June 30, 2007, 76 colleges have been acquired (net of closures, consolidations, or locations sold). The majority of our acquisitions occurred prior to fiscal 2005. To evaluate acquisition opportunities, we have established several criteria, such as demographics, curricula, and selected rigorous financial measurements.

#### ***Establish Additional Locations.***

Since our initial public offering in February 1999, we have opened 36 branch campuses, of which 34 remain a part of our operations. Of the 36 branch campuses, 2 were opened in each of fiscal 1999 and fiscal 2000, 4 were opened in each of fiscal 2001 and fiscal 2002, 6 were opened in fiscal 2003, 10 were opened in fiscal 2004, 5 were opened in fiscal year 2005 and 3 were opened in fiscal 2006. A key advantage of this strategy is that students attending new campuses branched from existing campuses have immediate access to federally funded student financial aid. We believe that opening new branch campuses allows us to enter new geographic markets, create additional capacity in existing markets and

effectively leverage our infrastructure and our extensive investment in curricula.



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### Programs of Study

Our diploma programs are intended to provide students with the requisite knowledge and job skills for entry-level positions in their chosen career. Our degree programs are primarily designed for career-oriented adults and to assist them in enhancing their functional and professional skills. Our curriculum development team is responsible for maintaining high quality, market driven curricula. Our colleges also utilize advisory boards to help evaluate and improve the curriculum for each program offered. These advisory boards are required to meet at least twice a year and are comprised of local industry and business professionals. Advisory board members provide valuable insight regarding changes in programs and suggest new technologies and other factors that may enhance curriculum.

Our diploma curricula includes the following key programs: medical assisting, medical insurance billing and coding, massage therapy, dental assisting, pharmacy technician, medical administrative assisting, automotive and diesel technology, HVAC, surgical technology, plumbing, electrical, nursing, aircraft frame and power plant maintenance technology, electronics and computer technology. Our degree curriculum includes business administration, criminal justice, medical assisting, accounting, paralegal, marketing, computer information technology, legal assisting, hospitality management, court reporting, film and video. At our FMU campuses, most associate's degree programs also articulate into a bachelor's degree in the same course of study. Master's degrees are also offered at FMU in business administration and criminal justice.

Diploma programs generally have a duration of 6-24 months, depending on the course of study. Associate's degree programs have a duration of 18-24 months, bachelor's degree programs have a duration of 36-48 months and master's degree programs have a duration of 21 months. As of June 30, 2007, we had approximately 63% of students enrolled in diploma programs, approximately 31% of students enrolled in associate's programs, approximately 5% of students enrolled in bachelor's programs and approximately 1% of students enrolled in master's programs.

The following table reflects our schools, locations, date acquired or opened, principal curricula, institutional accrediting agency, and square footage as of June 30, 2007. In the table below, programs offered are designated as follows: healthcare (HC), business (B), information technology and electronics (IT), criminal justice (CJ), automotive and diesel technology (AT) and other miscellaneous programs (OTH)<sup>(1)</sup>.

|                                       | Date            | Principal     | Accrediting | Square  |
|---------------------------------------|-----------------|---------------|-------------|---------|
| U.S. Schools and Colleges             | Acquired/Opened | Curricula     | Agency      | Footage |
| Ashmead College, Everett, WA          | 8/4/2003        | HC            | ACCET(4)    | 11,600  |
| Ashmead College, Fife, WA             | 8/4/2003        | HC            | ACCET       | 17,500  |
| Ashmead College, Seattle, WA          | 8/4/2003        | HC            | ACCET       | 27,000  |
| Ashmead College, Tigard, OR           | 8/4/2003        | HC            | ACCET       | 20,600  |
| Ashmead College, Vancouver, WA        | 8/4/2003        | HC            | ACCET       | 17,900  |
| Bryman College, Lynnwood, WA (2)      | 6/2/2002        | HC            | ACCST       | 24,800  |
| Everest College, Alhambra, CA         | 1/1/1996        | HC, B         | ACCST(6)    | 42,200  |
| Everest College, Anaheim, CA          | 7/1/1995        | HC            | ACCST       | 31,900  |
| Everest College, Arlington, VA        | 1/2/2002        | B, CJ, HC     | ACICS       | 23,500  |
| Everest College, Aurora, CO           | 10/1/1996       | HC, B, IT, CJ | ACICS       | 33,000  |
| Everest College, Bremerton, WA        | 8/4/2003        | HC            | ACICS       | 18,900  |
| Everest College, Burr Ridge, IL       | 7/2/2002        | HC            | ACCST       | 29,500  |
| Everest College, Chicago, IL          | 6/26/2003       | HC            | ACCST       | 47,300  |
| Everest College, City of Industry, CA | 10/1/2000       | HC, B         | ACCST       | 39,300  |
| Everest College, Colorado Springs, CO | 10/1/1996       | HC, B, IT, CJ | ACICS       | 30,500  |
| Everest College, Dallas, TX           | 2/3/2003        | B, CJ, HC     | ACICS       | 45,800  |
| Everest College, Everett, WA          | 8/4/2003        | HC            | ACICS(5)    | 24,200  |
| Everest College, Fort Worth, TX       | 8/24/2004       | B, CJ, HC     | ACICS       | 32,800  |
| Everest College, Gardena, CA          | 1/1/1996        | HC            | ACCST       | 22,100  |
| Everest College, Hayward, CA          | 9/1/2001        | HC            | ACCST       | 21,200  |
| Everest College, Los Angeles, CA      | 1/1/1996        | HC            | ACCST       | 22,500  |
| Everest College, McLean, VA           | 6/2/2004        | HC, B, CJ     | ACICS       | 28,600  |
| Everest College, Merrillville, IN     | 2/1/2001        | HC            | ABHES       | 33,200  |

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|  | Date            | Principal             | Accrediting | Square  |
|--|-----------------|-----------------------|-------------|---------|
| U.S. Schools and Colleges                    | Acquired/Opened | Curricula             | Agency      | Footage |
| Everest College, Merrionette Park, IL        | 10/19/2005      | HC                    | ACICS       | 33,800  |
| Everest College, Mesa, AZ                    | 11/15/2005      | B, CJ, HC             | NCA(7)      | 21,400  |
| Everest College, Mid Cities, TX              | 6/9/2003        | B, CJ, HC             | ACICS       | 26,200  |
| Everest College, N. Aurora, IL               | 2/1/2005        | HC                    | ACCSCT      | 38,500  |
| Everest College, Ontario Metro, CA           | 1/1/2001        | B, CJ                 | ACICS       | 40,800  |
| Everest College, Ontario, CA                 | 10/1/2000       | HC, B                 | ACCSCT      | 34,000  |
| Everest College, Phoenix, AZ                 | 6/1/2000        | B, CJ, HC             | NCA         | 35,700  |
| Everest College, Portland, OR                | 10/1/1996       | HC, B, IT, CJ,<br>OTH | ACICS       | 35,400  |
| Everest College, Renton, WA                  | 7/1/1996        | HC                    | ACCSCT      | 41,700  |
| Everest College, Reseda, CA                  | 7/1/1995        | HC                    | ACCSCT      | 26,600  |
| Everest College, Salt Lake City, UT          | 10/1/1996       | HC, B, IT, CJ,<br>OTH | ACICS       | 40,100  |
| Everest College, San Bernardino, CA          | 7/1/1995        | HC, B                 | ACICS       | 35,900  |
| Everest College, San Francisco, CA           | 10/1/1995       | HC                    | ACCSCT      | 30,600  |
| Everest College, San Jose, CA                | 10/1/1995       | HC                    | ACCSCT      | 18,300  |
| Everest College, Skokie, IL                  | 5/1/2001        | HC                    | ACCSCT      | 36,000  |
| Everest College, Springfield, MO             | 10/1/1996       | HC, B, IT, CJ         | ACICS       | 28,700  |
| Everest College, St. Louis, MO               | 3/31/2005       | HC, B                 | ACICS       | 30,000  |
| Everest College, Tacoma, WA                  | 8/4/2003        | HC                    | ACICS       | 30,700  |
| Everest College, Thornton, CO (3)            | 10/1/1996       | HC, B, IT, CJ         | ACICS       | 25,900  |
| Everest College, Torrance, CA                | 1/1/2000        | HC                    | ACCSCT      | 7,300   |
| Everest College, Vancouver, WA               | 10/1/1996       | HC, B, IT, CJ         | ACICS       | 23,000  |
| Everest College, West Los Angeles, CA        | 10/1/2000       | HC, B                 | ACCSCT      | 31,300  |
| Everest Institute, Atlanta, GA               | 4/1/2000        | HC                    | ABHES(8)    | 30,800  |
| Everest Institute, Austin, TX                | 10/2/2002       | HC, OTH               | ACCSCT      | 51,900  |
| Everest Institute, Brighton, MA              | 1/1/1996        | HC                    | ACCSCT      | 26,000  |
| Everest Institute, Chelsea, MA               | 3/30/2004       | HC                    | ACCSCT      | 30,500  |
| Everest Institute, Chesapeake, VA            | 3/1/1999        | HC, B, CJ             | ACICS       | 26,900  |
| Everest Institute, Columbus, OH              | 9/7/2004        | HC                    | ACCSCT      | 28,300  |
| Everest Institute, Cross Lanes, WV           | 7/1/1995        | HC, IT                | ACCSCT      | 26,700  |
| Everest Institute, Dearborn, MI              | 3/1/2001        | HC, IT                | ACCSCT      | 32,400  |
| Everest Institute, Dekalb, GA                | 5/1/2000        | HC                    | ACCSCT      | 27,200  |
| Everest Institute, Detroit, MI               | 12/23/2003      | HC                    | ACCSCT      | 23,600  |
| Everest Institute, Eagan, MN                 | 6/17/2004       | HC                    | ACCSCT      | 23,700  |
| Everest Institute, Grand Rapids, MI          | 2/2/2001        | HC                    | ABHES       | 34,700  |
| Everest Institute, Houston (Bissonet), TX    | 6/30/2004       | HC, IT, OTH           | ACCSCT      | 60,500  |
| Everest Institute, Houston (Greenspoint), TX | 1/1/2000        | HC                    | ACCSCT      | 27,600  |
| Everest Institute, Houston (Hobby), TX       | 12/1/2001       | HC                    | ACCSCT      | 26,300  |
| Everest Institute, Jonesboro, GA             | 4/1/2000        | HC                    | ABHES       | 35,600  |
| Everest Institute, Kalamazoo, MI             | 2/1/2001        | HC                    | ABHES       | 28,400  |
| Everest Institute, Marietta, GA              | 4/1/2000        | HC                    | ABHES       | 24,900  |
| Everest Institute, Newport News, VA          | 10/1/1995       | HC, B                 | ACICS       | 16,200  |
| Everest Institute, Norcross, GA              | 3/31/2003       | HC                    | ACCSCT      | 19,300  |
| Everest Institute, Pittsburgh, PA            | 10/1/1996       | HC, B, IT, CJ         | ACICS       | 39,000  |
| Everest Institute, Rochester, NY             | 10/1/1996       | B, IT, CJ, HC         | ACICS       | 43,600  |
| Everest Institute, San Antonio, TX           | 7/1/1995        | HC, OTH               | ACCSCT      | 60,200  |
| Everest Institute, Silver Spring, MD         | 2/8/2005        | HC                    | ACICS       | 30,700  |
| Everest Institute, South Plainfield, NJ      | 12/13/2005      | HC                    | ACCSCT      | 35,000  |
| Everest Institute, Southfield, MI            | 1/1/1996        | HC, IT                | ACCSCT      | 34,800  |
| FMU, Brandon, FL                             | 10/1/1996       | HC, B, IT, CJ         | ACICS       | 49,300  |
| FMU, Jacksonville, FL                        | 7/1/2000        | HC, B, IT, CJ         | ACICS       | 27,700  |
| FMU, Lakeland, FL                            | 10/1/1996       | HC, B, IT, CJ         | ACICS       | 30,400  |
| FMU, Melbourne, FL (3)                       | 10/1/1996       | HC, B, IT, CJ,<br>OTH | ACICS       | 25,800  |



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|   | <b>Date</b>            | <b>Principal</b>   | <b>Accrediting</b> | <b>Square</b>    |
|---|------------------------|--------------------|--------------------|------------------|
| <b>U.S. Schools and Colleges</b>                  | <b>Acquired/Opened</b> | <b>Curricula</b>   | <b>Agency</b>      | <b>Footage</b>   |
| FMU, Orange Park-Jacksonville, FL                 | 3/3/2004               | HC, B, CJ          | ACICS              | 28,000           |
| FMU, Orlando (North), FL                          | 10/1/1996              | HC, B, IT, CJ, OTH | ACICS              | 46,000           |
| FMU, Orlando (South), FL                          | 10/1/1996              | HC, B, IT, CJ      | ACICS              | 59,900           |
| FMU, Pinellas, FL                                 | 10/1/1996              | HC, B, IT, CJ      | ACICS              | 34,600           |
| FMU, Pompano Beach, FL                            | 10/1/1996              | HC, B, IT, CJ, OTH | ACICS              | 53,100           |
| FMU, Tampa, FL (3)                                | 10/1/1996              | HC, B, IT, CJ, OTH | ACICS              | 39,400           |
| Las Vegas College, Henderson, NV                  | 10/1/1996              | HC, B, IT, CJ      | ACICS              | 31,500           |
| National School of Technology, Ft. Lauderdale, FL | 9/30/2003              | HC                 | ABHES              | 34,500           |
| National School of Technology, Hialeah, FL        | 4/1/2002               | HC, CJ             | ABHES              | 24,500           |
| National School of Technology, Kendall, FL        | 4/1/2002               | HC, CJ             | ABHES              | 29,300           |
| National School of Technology, N. Miami Beach, FL | 4/1/2002               | HC, CJ             | ABHES              | 37,400           |
| WyoTech, Daytona Beach, FL                        | 8/4/2004               | OTH                | ACCET              | 92,400           |
| WyoTech, Fremont, CA                              | 8/7/2003               | AT, OTH            | ACCSCT             | 124,900          |
| WyoTech, Laramie, WY                              | 7/1/2002               | AT                 | ACCSCT             | 431,400          |
| WyoTech, Long Beach, CA                           | 10/1/2000              | AT, HC, IT, OTH    | ACCSCT             | 92,400           |
| WyoTech, Oakland, CA                              | 3/18/2004              | OTH                | ACCSCT             | 53,900           |
| WyoTech, Sacramento, CA                           | 1/27/2004              | AT                 | ACCSCT             | 248,500          |
| WyoTech, Blairsville, PA (3)                      | 7/1/2002               | AT                 | ACCSCT             | 261,800          |
| <b>Campus Support Center Offices</b>              |                        |                    |                    |                  |
| Santa Ana, CA                                     |                        |                    |                    | 127,200          |
| Wiggins, MS                                       |                        |                    |                    | 4,600            |
| Tampa, FL   |                        |                    |                    | 65,100           |
| Tampa (Regional), FL                              |                        |                    |                    | 7,300            |
| Tempe Online                                      |                        |                    |                    | 37,300           |
| Washington, DC                                    |                        |                    |                    | 2,300            |
| <b>Total Square Footage for U.S. Properties</b>   |                        |                    |                    | <b>4,263,100</b> |

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|  | <b>Opened/Acquired</b> | <b>Principal Curricula</b> | <b>Square Footage</b> |
|--|------------------------|----------------------------|-----------------------|
| <b>Canadian Schools and Colleges</b>         |                        |                            |                       |
| CDI, Barrie, Ontario                         | 08/19/2003             | HC, B, CJ                  | 14,200                |
| CDI, Brampton, Ontario                       | 08/19/2003             | HC, B, CJ, IT              | 15,500                |
| CDI, Hamilton (Mountain), Ontario            | 08/19/2003             | HC, CJ                     | 18,500                |
| CDI, Hamilton (City Center), Ontario         | 08/19/2003             | B, HC, IT, CJ              | 7,800                 |
| CDI, Kitchener, Ontario                      | 08/19/2003             | B, HC, CJ, IT              | 12,600                |
| CDI, London, Ontario                         | 08/19/2003             | HC, IT, B                  | 12,200                |
| CDI, Mississauga, Ontario                    | 08/19/2003             | HC, B, IT, CJ              | 30,400                |
| CDI, Newmarket, Ontario                      | 08/19/2003             | HC, B, CJ, IT              | 14,100                |
| CDI, North York Ontario                      | 08/19/2003             | HC, B, CJ                  | 17,900                |
| CDI, Ottawa (West-Nepean), Ontario           | 08/19/2003             | HC, B, IT, CJ              | 17,400                |
| CDI, Ottawa (East), Ontario                  | 08/19/2003             | HC, B, IT, CJ              | 32,700                |
| CDI, Sudbury, Ontario                        | 08/19/2003             | B, HC                      | 15,200                |
| CDI, Toronto (East), Ontario                 | 08/19/2003             | HC, B, IT, CJ              | 17,500                |
| CDI, Toronto (South) Ontario                 | 08/19/2003             | HC                         | 29,000                |
| CDI, Toronto (Central), Ontario              | 08/19/2003             | B, HC, IT, CJ, OTH         | 25,100                |
| CDI, Thunder Bay, Ontario                    | 08/19/2003             | HC, B, IT                  | 10,800                |
| CDI, Windsor, Ontario                        | 08/19/2003             | HC, B, CJ, IT              | 12,400                |
| CDI Campus Support Center                    | 08/19/2003             |                            | 11,900                |
| <br>   |                        |                            |                       |
| Total Square Footage for Canadian Properties |                        |                            | 315,200               |
| <br>   |                        |                            |                       |
| Total Square Footage for All Properties      |                        |                            | 4,578,300             |

(1) OTH means Other and includes programs such as hotel and restaurant management, travel and hospitality, and video/film production, plumbing, electrical, HVAC, and other trades as well as other miscellaneous programs.

(2) This campus is currently being taught-out.

(3) Indicates owned properties.

(4) Accrediting Council for Continuing Education and Training

(5) Accrediting Council for Independent Colleges and Schools

(6) Accrediting Commission of Career Schools and Colleges of Technology

(7) North Central Association Higher Learning Commission

(8) Accrediting Bureau of Health Education Sciences

**Marketing and Recruitment**

We employ a variety of methods to attract applicants who will benefit from our programs and achieve success in their chosen careers. The methods include a variety of direct response marketing techniques to generate leads of potential applicants for our schools. Our marketing

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department generated approximately 1.8 million leads in the United States and Canada in fiscal 2007, primarily through television, internet, direct mail, newspaper, and yellow pages. The effectiveness of these marketing

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campaigns is dependent upon timely and accurate lead tracking. To that end, we operate a call center for our U.S. campuses at our main office in California, as well as an outsourced overflow call center, and we have an outsourced call center in Canada for our Canadian operations.

The call centers are staffed by a team of operators who receive incoming calls from prospective students attracted to our programs. These trained operators enter relevant data on each prospect into our management information system during the call and then transfer the prospective student to the appropriate school.

Our marketing agencies have access to our management information database and are provided with real time information on the effectiveness of individual campaigns. This allows them to identify leads generated by specific commercials and spot times. The agencies consult with our marketing department to adjust schedules for advertisements depending on our needs and the effectiveness of the particular advertisements. Since more than 55% of our marketing budget is spent on television and newspaper advertisements, the availability of timely and accurate lead information is critical to the leads generation process. For the year ended June 30, 2007, approximately 26% of our new student enrollments were generated through television, newspaper and yellow pages marketing, 32% were generated from the Internet, 28% were generated through referrals, 4% were generated through direct mail, and 10% were generated through a variety of other methods.

### **National Branding**

We are in the process of consolidating multiple brand names to increase our company's overall visibility and gain the marketing efficiencies associated with national advertising. By the third quarter of fiscal 2008, we expect all of our schools to operate under one of two national brands, Everest or WyoTech. The Everest brand was recently developed by the Company, and WyoTech is a well-established brand in automotive training. As of June 30, 2007, 65 out of 110 schools were operating under the new Everest brand, and 7 schools were operating under the WyoTech brand. As a result of brand consolidation, in the fourth quarter of fiscal 2007 we recognized an impairment charge of \$4.5 million for trade names that will no longer be in use.

### **Admissions**

As of June 30, 2007, we employed approximately 1,120 admissions representatives who work directly with prospective students to facilitate the admissions process. These representatives interview and advise students interested in specific careers and are a key component of our effort to generate interest in our educational services. We conduct quarterly student satisfaction surveys at our campuses in the United States in which students have consistently given high marks to our admissions personnel for helpfulness, courtesy and accuracy of information. Because our success is highly dependent on the efficiency and effectiveness of our admissions process, we invest considerable resources to train our admissions representatives in product knowledge, regulatory compliance, and customer service. We also employ various admissions supervisory and monitoring programs, and conduct student surveys which help us ensure compliance with both government regulations and our corporate policies.

One of our objectives in the admissions process is to identify students who have the ability to succeed in our schools. The majority of prospective students must pass a standardized admissions test. Most of our colleges in the United States accept non-high school graduates who can demonstrate an ability to benefit (ATB students) from the program by passing certain tests which are required by the ED. We believe that ATB students can successfully complete many of our diploma programs and our colleges have demonstrated success in graduating and placing these students over the years. As of June 30, 2007, ATB students accounted for approximately 15.7% of total enrollments in our U.S. schools.

### **Placement**

Graduate placement outcomes are critical to our colleges' reputations and their ability to continue to successfully recruit new students. We maintain a career services department at each college and, as of June 30, 2007, employed approximately 300 individuals in this capacity. We require our career services personnel to work with students from the time they begin their courses of study until they are successfully placed in jobs for which they are trained. Our career services departments assist students with resumes, help them develop a professional demeanor, conduct practice interview sessions, and identify prospective employers for the colleges' graduates. Overall, we believe the efforts we devote to place our graduates have achieved excellent results.

Our colleges endeavor to obtain information regarding their students' employment following graduation. The reliability of that information depends, to a large extent, on the completeness and accuracy of the data provided to our colleges by graduates and their employers. Additionally, a dedicated team at the campus support center conducts a verification process to check the accuracy of the placement information gathered by our campuses. Based on information received from these groups of people, we believe that approximately 84.0% of our graduates in calendar year 2006 who were available for placement have been placed in a job for which they were trained as calculated based on accrediting agency standards. The various accrediting agencies evaluate placement rates by individual institution and program, and have different requirements

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regarding which students are considered available for placement. In defining the graduate cohort group for the purpose of calculating placement rates, certain accrediting agencies may exclude, for example, graduates who are continuing their education, are in active military service or are deceased or disabled, and foreign students who are ineligible to work in the U.S. after graduation. Where applicable, we have also excluded those graduates in our calculation of students available for placement and the graduate placement rate.



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### **Tuition**

Typical tuition rates for our diploma programs in the U.S. and Canada range from \$3,000 to \$34,600, depending upon the nature and length of the program. Tuition for degree programs is charged on a credit hour basis and varies by college, typically ranging from \$235 to \$367 per undergraduate credit hour, depending upon the program of study. Tuition for graduate programs ranges from \$438 to \$498 per credit hour. On average, an undergraduate degree candidate can expect tuition of approximately \$9,200 per academic year, while a master's degree candidate can expect tuition of approximately \$11,200 per academic year. In addition to tuition, students may be required to purchase textbooks and other supplies as part of their educational programs. We anticipate increasing tuition based on the market conditions prevailing at our individual colleges.

If a student fails to complete the period of enrollment (such as a quarter, semester, academic year, or program), the institution may be required to refund tuition previously collected to the originating or disbursing agency or to the student directly, depending on the source of the funds. Refunds are calculated in accordance with the applicable federal, state, provincial or institutional refund policies.

### **Campus Administration**

We establish policies at our campus support center office, implement these policies, and monitor the performance of our schools through the coordination of the president and chief operating officer, the division presidents, our regional vice presidents of operations, the regional vice presidents of admissions, and their respective support staffs and through our internal audit department. The college presidents have the responsibility for the day-to-day operation of the schools. Each U.S. college generally employs the following management personnel which report to the college president:

an academic dean or education director;

an admissions director;

a career services director;

a finance director, and

a business manager (where total students enrolled justify this level of support).

Our schools in Canada are typically smaller and thus employ a smaller management team. As each school's enrollment grows, additional management may be added.

Campus support center personnel manage several key functions, including accounting, information technology, student financial services, marketing, curriculum development, staff training, the call center, legal, treasury, internal audit, human resources, payroll, purchasing, real estate, and accreditation and licensing. Among the principal oversight functions performed by campus support center personnel (in cooperation with our division, region and college management) are the annual operating budget, strategic planning and forecasting processes. These processes establish goals for each college, assist in implementing strategies and establish performance expectations and corresponding incentives. Our senior management team monitors operating performance and profitability of each college and has established periodic communication with the college presidents to review key performance indicators such as lead flow, starts, student population, and other operating results to determine the proper course of action.

### **Competition**

The post-secondary education market in the United States, consisting of approximately 6,900 accredited institutions, is highly fragmented and competitive, with no institution having a significant market share. Many of the programs offered by our colleges are also offered by public and private non-profit institutions, as well as by many of the approximately 2,800 private, for-profit colleges and schools. The post-secondary

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education market in Canada is also highly fragmented. Typically, the tuition charged by public institutions is less than tuition we charge for comparable programs because public institutions receive state subsidies, donations and government research and other grants that are not available to our colleges. However, tuition at other private non-profit institutions is often higher than the tuition charged at our colleges.

We compete in most markets with other private, for-profit institutions offering similar programs. We believe our supportive learning environment, smaller class sizes, large national scale, and our faculty, our facilities, and our emphasis on student services and placement allows us to compete effectively. In addition, many of our colleges have been operating in their markets for many years, which has led to a substantial number of graduates who are working in the community and validate the quality of the colleges' programs.

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### **Facilities**

Our campus support center office is located in Santa Ana, California and our 110 campuses as of June 30, 2007, are located in 24 states and in the province of Ontario, Canada. Each campus provides our students with lecture halls, instructional labs, libraries, Internet access and other facilities.

We actively monitor the capacity at our facilities and the expected future facilities capacity required to accommodate campus growth initiatives. We provide for expansion and future growth at each campus through relocations to larger facilities and by expanding or remodeling existing facilities. From the beginning of fiscal 2003 through fiscal 2007, approximately 24% of the campuses have been relocated and an additional 88% of total campuses have been either expanded or remodeled. The following table reflects the number of campuses added, closed or combined, and the number of campuses that have been relocated, enlarged or remodeled during each of the last five fiscal years ended:

|  | 2007 | 2006 | 2005 | 2004 | 2003 |
|--|------|------|------|------|------|
| Opened                                   |      |      |      |      |      |
| Acquired                                 | 0    | 0    | 1    | 72   | 4    |
| Branched                                 | 0    | 3    | 5    | 10   | 6    |
| Closed, combined, sold, or held for sale | 2    | 17   | 12   | 21   | 0    |
| Campuses at year end                     | 110  | 112  | 126  | 132  | 71   |
| Relocated                                | 2    | 6    | 10   | 5    | 3    |
| Enlarged or remodeled                    | 6    | 12   | 32   | 30   | 17   |

All but four of our facilities are leased. In addition, we lease our campus support center offices. Most of our leases have primary terms between 5 and 10 years with options to extend the lease, at our election.

### **Management and Employees**

Our company is led by Jack D. Massimino, Chief Executive Officer, and Peter C. Waller, President and Chief Operating Officer. They are assisted by the other executive officers of the Company: Kenneth S. Ord, Beth A. Wilson, William B. Buchanan, Mark L. Pelesh, Stan A. Mortensen and Robert C. Owen. In addition to the executive officers, our management team includes other vice presidents and senior vice presidents who provide supervision of various functional areas and the presidents of our operating divisions. As of June 30, 2007, we had approximately 8,950 employees in the U.S. and Canada, of whom approximately 3,100 were part-time and approximately 525 were employed at or assigned to our campus support center and regional offices.

### **Faculty**

The faculty members at our colleges are industry professionals and hold appropriate credentials in their respective disciplines. We choose faculty who possess the requisite academic and experiential qualifications and who we believe will be successful in working with our students and encourage them to pursue professional development activities to enhance their functional and classroom skills. We believe the skill and dedication of our faculty is critical to the academic and professional success of our students. As of June 30, 2007, we employed 3,674 faculty in the United States and Canada, 1,114 of whom were full-time employees. Faculty represents approximately 41% of our employees.

### **Available Information**

Free copies of our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and any amendments to those reports may be obtained through our website at [www.cci.edu](http://www.cci.edu), or by contacting our investor relations department after such reports are electronically filed with or furnished to the Securities and Exchange Commission ( SEC ). Our website address is provided solely for informational purposes. We do not intend, by this reference, that our website or any of the information contained therein should be deemed to be part of, or incorporated into, this Annual Report.

### **EXECUTIVE OFFICERS OF THE REGISTRANT**

Set forth below are the name, ages, titles and present and past positions of the persons serving as executive officers of the Company as of August 23, 2007, as well as other significant employees of the Company as defined under Item 401(c) of Regulation S-K:

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| <b>Names</b>      | <b>Ages</b> | <b>Positions</b>                                     |
|-------------------|-------------|--|
| Jack D. Massimino | 58          | Chief Executive Officer                              |
| Peter C. Waller   | 53          | President and Chief Operating Officer                |
| Kenneth S. Ord    | 61          | Executive Vice President and Chief Financial Officer |

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| <b>Name</b>             | <b>Age</b> | <b>Position</b>   |
|-------------------------|------------|---|
| Beth A. Wilson          | 55         | Executive Vice President, Operations                            |
| William B. Buchanan     | 41         | Executive Vice President, Marketing                             |
| Mark L. Pelesh          | 53         | Executive Vice President, Legislative and Regulatory Affairs    |
| Stan A. Mortensen       | 40         | Senior Vice President, General Counsel and Corporate Secretary  |
| Robert C. Owen          | 46         | Senior Vice President and Chief Accounting Officer              |
| Janis Y. Schoonmaker    | 51         | President and Chief Operating Officer, FMU Division             |
| William P. Murtagh, Jr. | 54         | President and Chief Operating Officer, CSI Division             |
| David A. Poldoian       | 54         | President and Chief Operating Officer, Online Learning Division |
| Frank Stryjewski        | 50         | President and Chief Operating Officer, WyoTech Division         |

**Jack D. Massimino**, became our Chief Executive Officer in November 2004. He was previously a member of the Board of Directors and a member of the Audit and Compensation Committees of the Board. Prior to joining our company, Mr. Massimino was retired and managed his personal investment portfolio. Previously, he was President and Chief Executive Officer of Talbert Medical Management Corporation, a publicly traded physician practice management company from 1995 through late 1997. Prior to his association with Talbert, Mr. Massimino was Executive Vice President and Chief Operations Officer of FHP International Corporation, a multi-state, publicly-traded HMO, with revenues of approximately \$4 billion at the time of his service. He also served in other executive positions after joining FHP in 1988, including Senior Vice President and Vice President, Corporate Development. Prior to such time, Mr. Massimino held other executive positions in the healthcare field starting in the mid-1970 s. He received a Bachelor of Arts in Psychology from California Western University and earned a Master s Degree in Management from the American Graduate School for International Management.

**Peter C. Waller**, became our President and Chief Operating Officer in February 2006. Mr. Waller has a 30-year career that includes expertise in marketing, operations and finance. Prior to joining the Company, he served as CEO and then as Executive Partner at ThreeSixty Sourcing, Inc. from 2001 to 2006. Previously he was President of Taco Bell from 1997 to 2000. He first joined Taco Bell in 1996. Prior to his experience at Taco Bell, Mr. Waller spent six years at Kentucky Fried Chicken of PepsiCo where he went from Managing Director for Western Europe, to Marketing Director for the South Pacific based in Sydney, Australia, and finally, to Chief Marketing Officer for KFC in the United States. He began his marketing career in 1975 at Procter and Gamble, United Kingdom, serving as a brand manager in the personal care products category and was later recruited to Gillette in 1981. Mr. Waller holds a Master of Arts degree in Modern History from St. Catherine s College of Oxford University.

**Kenneth S. Ord** became our Executive Vice President and Chief Financial Officer in February 2005. Mr. Ord brings more than 30 years of financial experience to his position from publicly traded companies in the healthcare, staffing services and automotive industries. Mr. Ord was the Chief Financial Officer at Alliance Imaging, Inc. from 1998 to 2004. Previously he was the Chief Financial Officer of Talbert Medical Management Corporation during 1997 and he was the Chief Financial Officer of FHP International Corporation from 1994 to 1997. Prior to his experience at FHP, Mr. Ord held several successively responsible positions at Kelly Services Inc, including Treasurer, Controller and Vice President Finance. He began his career at Ford Motor Company, working in various financial roles, ranging from financial controls to profit analysis. Mr. Ord holds a Master s in Business Administration from Brigham Young University.

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**Beth A. Wilson** has been employed by us since our inception in July 1995. She was promoted to Executive Vice President in July 2001 and oversees all operational support for accreditation and licensure, curriculum development and quality control, career services, student financial services, human resources, real estate, facilities and purchasing. Previously, Ms. Wilson was Vice President of Operations from June 1998 to June 2001. Ms. Wilson was Regional Operations Director for Rhodes Colleges, Inc. from May 1997 to June 1998. From July 1995 to May 1997 she was Operations Director and Regional Operations Director for Corinthian Schools, Inc. Ms. Wilson was employed by NECI from 1991 to 1995, initially as Executive Director of its Capital Hill campus, then as Area Operations Manager. From 1990 to 1991, she was Vice President, Branch Operations for National College. She was employed by United Education and Software from 1984 to 1990, initially as Executive Director of a business school, then as Group Manager for four to fifteen locations and finally as Vice President, Administration. She was Scholarship Administrator for National University from 1982 to 1984 and Assistant Director of American Business College from 1976 to 1981. Additionally, between 1999 and 2003 Ms. Wilson served as a Commissioner for ACCSCT. Ms. Wilson earned a Master's of Business Administration from National University and a Bachelor of Arts degree from California State College, Sonoma.

**William B. Buchanan** became our Executive Vice President of Marketing in July 2004. From 2003 to 2004, Mr. Buchanan was employed by Greenpoint Mortgage, where he directed all retail marketing, with responsibility for direct marketing, internet marketing, advertising and branch marketing. From 1995 to 2002, Mr. Buchanan was employed by Provident Financial Corporation where he progressed through several senior marketing roles, including Vice President of Platinum Marketing, Senior Vice President of New Account Business, and Executive Vice President of New Channel and Product Development. Mr. Buchanan received a Bachelor of Arts in Political Science from the University of California, Berkeley.

**Mark L. Pelesh** became our Executive Vice President for Legislative and Regulatory Affairs in September 2003. Prior to joining our company, he was a partner in the firm of Drinker Biddle & Reath LLP in Washington, DC, where he was the head of the Education Law Group. His practice focused on federal and state laws and regulations and private accreditation requirements affecting postsecondary educational institutions. Prior to joining Drinker Biddle & Reath, Mr. Pelesh was a partner and associate in the firm of Cohn and Marks and an associate in the firm of Arnold & Porter, both of which are in Washington, DC. Mr. Pelesh received a Juris Doctorate degree from the Yale Law School in 1978 and a Bachelor of Arts degree with distinction and honors in History from Stanford University in 1975.

**Stan A. Mortensen** has served as our Senior Vice President, General Counsel and Corporate Secretary since August 2002. Prior to his appointment as Senior Vice President, Mr. Mortensen served as Vice President, General Counsel and Corporate Secretary starting in January 2000. Prior to that time, Mr. Mortensen was an attorney at the law firm of O'Melveny & Myers LLP from March 1997 through December 1999, where his practice focused on securities law, corporate finance, mergers and acquisitions, and general corporate matters. From August 1994 through February 1997, Mr. Mortensen was an attorney at the law firm of Robins, Kaplan, Miller & Ciresi, where his practice focused on commercial litigation. Mr. Mortensen received a Juris Doctorate and a Bachelor of Arts in Political Science from Brigham Young University.

**Robert C. Owen** has served as our Senior Vice President and Chief Accounting Officer since February 2005. He joined Corinthian in 2004 as Vice President and Controller, and has more than 20 years experience in industry and public accounting. Previously, he served as Vice President, Controller for Princess Cruise Lines and as Assistant Controller for Royal Caribbean Cruises Ltd. Mr. Owen began his career at Deloitte & Touche, where he spent 11 years in successively responsible positions, both in the U.S. and Canada. Mr. Owen earned a B.B.A. degree in accounting from Florida Atlantic University. He obtained his license as a Certified Public Accountant in Florida in 1985 and as a Chartered Accountant in Ontario, Canada in 1994.

**Janis Y. Schoonmaker** was appointed President and Chief Operating Officer of Florida Metropolitan University in March 2006. Ms. Schoonmaker has more than 24 years of experience in the private postsecondary career education industry, and has been a Corinthian manager since 1996. Prior to her current position, she served as President of the RCI Division; President of the University Division; Regional Vice President of Operations for RCI; and Regional Vice President of Operations within the CSI Division. From 1986 to 1998 she served as President of three career colleges: Duff's Business Institute, Pittsburgh, Pennsylvania; Parks College, Denver, Colorado; and Phillips Junior College, Fayetteville, North Carolina. She entered the career colleges industry in 1983 as a Director of Career Services of Kings College, Raleigh, North Carolina, and her role was expanded to Vice President of Career Services for the Rutledge Education System. Additionally, Ms. Schoonmaker served as Director of Training and Development for Telecom Corporation. Ms. Schoonmaker earned a BSW in Social Work from Shippensburg University, Shippensburg, PA, and continued her studies in Adult and Community College Education at North Carolina State University and Management at Webster University.

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**William P. Murtagh, Jr.** was named President and Chief Operating Officer of the CSI division in April 2005, and served as President of the CDI division from November 2003 to April 2005. Prior to joining our company, Mr. Murtagh was President of International Education Corporation, based in Irvine, California, from 2001 to 2003. Earlier, Mr. Murtagh was a minority owner, President and Chief Executive Officer of Professional Training Programs located in Denver, Colorado, and upon the sale of that company to Quest Education Corp. in 2000, he became the Director of Operations-Southwest for Quest. Mr. Murtagh holds a Bachelor of Arts in Political Science from Fairfield University.

**David A. Poldoian** joined the Company in November 2004, as President and Chief Operating Officer of the Online Learning division. Prior to that, Mr. Poldoian spent nine years with the Anheuser-Busch Companies beginning in 1995, initially serving as President of its Eagle Snacks, Inc. division and later reporting directly to the Chairman and Chief Executive Officer. Mr. Poldoian was Vice President and Partner with Bain & Company, a strategic consulting firm, from 1986 to 1995. Mr. Poldoian completed a Bachelor of Arts degree at Tufts University, and earned a Master of Business Administration from Harvard Business School.

**Frank Stryjewski** joined the Company in February 2007, as President and Chief Operating Officer of the WyoTech division. Prior to joining our Company, Mr. Stryjewski served as Senior Vice President of Operations for Loews Cineplex Entertainment Corporation from 2005 to 2006. Mr. Stryjewski was Senior Vice President of Strategic Development and Marketing for American Multi-Cinema between 2002 to 2005 and was the President and Chief Operating Officer of General Cinema Theatres from 1999 to 2002. Mr. Stryjewski earned a Bachelor of Arts degree in Communications from Fordham University and a Master of Business Administration degree from Rockhurst University.

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**GOVERNMENTAL REGULATIONS AND FINANCIAL AID**

**U.S. Regulations**

Students attending our schools in the U.S. finance their education through a combination of family contributions, individual resources (including earnings from full or part-time employment) federal financial aid programs and loans from the Company or third parties.

We estimate that during fiscal 2007 approximately 76.8% of our students in the U.S. received some federal Title IV financial aid. For fiscal 2007, approximately 75.2% of our revenues (on a cash basis) were derived from federal Title IV programs (as defined herein).

If any of our institutions were to lose its eligibility to participate in federal student financial aid programs, the students at that institution would lose access to funds derived from those programs and would have to seek alternative sources of funds to pay their tuition and fees. Students in the U.S. obtain access to federal student financial aid through a ED-prescribed application and eligibility certification process. Student financial aid funds are generally made available to students at prescribed intervals throughout their predetermined expected length of study. Students typically use the funds received from the federal financial aid programs to pay their tuition and fees. The transfer of funds from the financial aid programs is to the students, who then apply those funds to the cost of their education. The receipt of funds from federal financial aid programs reduces the students' amount due to the institution, but does not affect the Company's revenue recognition.

In connection with the receipt of federal financial aid by our students, we are subject to extensive regulation by governmental agencies and licensing and accrediting agencies. In particular, the Higher Education Act of 1965, as amended (the HEA), and the regulations issued thereunder by the ED, subject us to significant regulatory scrutiny in the form of numerous standards that schools must satisfy in order to participate in the various federal financial aid programs under Title IV of the HEA (the Title IV Programs). Under the HEA, regulatory authority is divided among each of the following components: (i) the federal government, which acts through the ED; (ii) the accrediting agencies recognized by the ED; and (iii) state higher education regulatory bodies. Among other things, the HEA and ED regulations require each of our U.S. institutions to: (i) maintain a rate of default by its students on federally guaranteed loans that are below a specified rate; (ii) limit the proportion of its revenue (on a cash basis) derived from the Title IV Programs; (iii) comply with certain financial responsibility and administrative capability standards; (iv) prohibit the payment of certain incentives to personnel engaged in student recruiting, admissions activities or the award of financial aid; and (v) achieve prescribed completion and placement outcomes for short-term programs. The regulations, standards and policies of the regulatory agencies frequently change, and changes in, or new interpretations of, applicable laws, regulations or standards could have material consequences for our accreditation, authorization to operate in various states, permissible activities, receipt of funds under Title IV Programs and costs of doing business.

The federally guaranteed loans referred to by us are authorized by the HEA and are guaranteed ultimately by the U.S. Secretary of Education. The guaranteed loans are neither guaranteed by us, nor can such guaranteed loans become our obligation. 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 loans.

Rather, the ED regulations require that we maintain a rate of default by our former students on federally guaranteed, or funded student loans, that is below a specified rate, and pertain solely to our eligibility to participate in federal student financial aid programs. If an institution fails to maintain a Cohort Default Rate of 25% or less for three consecutive years, the institution could lose eligibility to participate in federal financial aid programs, and its students would lose access to the federally guaranteed student loan programs.



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The ED regulations define an institution as a main campus and its additional locations, if any. As defined by the ED, our main campuses that have additional locations in the U.S. are as follows:

**Main  
Campus(1)**

Ashmead College, Seattle, WA

Everest College, Alhambra, CA

Everest College, Bremerton, WA

Everest College, Brighton, MA

Everest College, Colorado Springs, CO

Everest College, Gardena, CA

Everest College, Ontario, CA

Everest College, Phoenix, AZ

Everest College, Portland, OR

Everest College, Renton, WA

Everest College, Salt Lake City, UT

Everest College, San Francisco, CA

Everest College, Skokie, IL

Everest College, Springfield, MO

Everest College, Thornton, CO

Everest Institute, Atlanta, GA

Everest Institute, Cross Lanes, WV

**Additional  
Locations**

Ashmead College, Fife, WA

Ashmead College, Vancouver, WA

Ashmead College, Everett, WA

Ashmead College, Tigard, OR

Everest Institute, Chelsea, MA

Everest College, Everett, WA

Everest College, Tacoma, WA

Everest College, St. Louis, MO

Everest College, North Aurora, IL

Everest College, McLean, VA

Everest Institute, Norcross, GA

Everest Institute, Columbus, Ohio

Everest College, Mesa, AZ

Everest College, Vancouver, WA

Everest College, Dallas, TX

Everest Institute, Silver Springs, MD

Everest College, Lynnwood, WA

Everest Institute, Houston (Bissonnet), TX

Everest College, Fort Worth, TX

Everest College, Chicago, IL

Everest College, Burr Ridge, IL

Everest College, Ontario Metro, CA

Everest College, Aurora, CO

Everest College, Arlington, VA

Everest Institute, Jonesboro, GA

Everest Institute, Marietta, GA

Everest Institute, Dekalb, GA

Everest Institute, Eagan, MN

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Everest Institute, Grand Rapids, MI

Everest Institute, Newport News, VA

Everest Institute, Rochester, NY

Everest Institute, San Antonio, TX

Everest Institute, Southfield, MI

FMU, Orlando (North), FL

FMU, Pinellas, FL

FMU, Pompano Beach, FL

FMU, Tampa, FL

NST, Kendall, FL

NST, North Miami Beach, FL

WyoTech, Fremont, CA

WyoTech, Laramie, WY

WyoTech, Long Beach, CA

Everest Institute, Kalamazoo, MI

Everest College, Merrillville, IN

Everest Institute, Chesapeake, VA

Everest College, Mid-Cities, TX

Everest Institute, Houston (Greenspoint), TX

Everest Institute, Houston (Hobby), TX

Everest Institute, South Plainfield, NJ

Everest Institute, Dearborn, MI

Everest Institute, Detroit, MI

Everest Institute, Austin, TX

FMU, Melbourne, FL

FMU, Orlando (South), FL

FMU, Lakeland, FL

FMU, Jacksonville, FL

Everest College, Merrionette Park, IL

FMU, Brandon, FL

FMU, Orange Park, FL

NST, Ft. Lauderdale, FL

NST, Hialeah, FL

WyoTech, Oakland, CA

WyoTech, Blairsville, PA WyoTech, Sacramento, CA

Everest College, City of Industry, CA

Everest College, West Los Angeles, CA

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(1) The above list includes only those main campuses which have one or more branch locations.

**Table of Contents****Accreditation for U.S. Schools**

Accreditation is a voluntary non-governmental process by which institutions submit themselves to qualitative review by an organization of peer institutions. There are three types of accrediting agencies: (i) national accrediting agencies, which accredit institutions without regard to geographical location; (ii) regional accrediting agencies, which accredit institutions within their geographic areas; and (iii) programmatic accrediting agencies, which accredit specific educational programs offered by institutions. Accrediting agencies primarily examine the academic quality of the instructional programs offered at the institution, including retention and placement rates. Accrediting agencies also review the administrative and financial operations of the institution to ensure that it has the academic and financial resources to achieve its educational mission. A grant of accreditation is generally viewed as certification that an institution and its programs meet generally accepted academic standards.

Pursuant to provisions of the HEA, the ED relies on accrediting agencies to determine whether an institution and its educational programs are of sufficient quality to permit it to participate in Title IV Programs. The HEA specifies certain standards that all recognized accrediting agencies must adopt in connection with their review of post-secondary institutions and requires accrediting agencies to submit to a periodic review by the ED as a condition of their continued recognition. All of our colleges located within the U.S. are accredited by an accrediting agency recognized by the ED as depicted in the table below:

| Accrediting Agency  | Number of<br>Schools | % of<br>Total<br>Schools |
|---|----------------------|--------------------------|
| Accrediting Commission of Career Schools and Colleges of Technology             | 40                   | 43%                      |
| Accrediting Council for Independent Colleges and Schools                        | 35                   | 38%                      |
| Accrediting Bureau of Health Education Sciences                                 | 10                   | 11%                      |
| Accrediting Council for Continuing Education and Training                       | 6                    | 6%                       |
| Higher Learning Commission of North Central Association of Schools and Colleges | 2                    | 2%                       |
| Total U.S. Schools  | 93                   | 100%                     |

The HEA requires accrediting agencies recognized by the ED to review many aspects of an institution's operations in order to ensure that the education or training offered is of sufficient quality to achieve, for the duration of the accreditation period, the stated objectives of the education or training offered. Under the HEA, recognized accrediting agencies must conduct regular reviews of the institutions they accredit. In addition to periodic accreditation reviews, institutions undergoing a change of ownership must be reviewed by the appropriate accrediting agency. All of our colleges in the U.S. have been visited and reviewed by their respective accrediting agencies subsequent to the date of acquisition by us. Accrediting agencies also monitor institutions' compliance during the term of their accreditation. If an accrediting agency believes that an institution may be out of compliance with accrediting standards, it may place the institution on probation or a similar warning status or direct the institution to show cause why its accreditation should not be revoked. An accrediting agency may also require the institution to supply it with supplemental reports in order for the agency to monitor one or more specific areas of the institution's performance, typically completion or graduate placement outcomes. This is commonly referred to as being on reporting status. Failure to demonstrate compliance with accrediting standards in any of these instances could result in loss of accreditation. Being on probation, show cause, or reporting status may cause an accreditor to deny an institution permission, or otherwise delay approval, to open and commence instruction at new locations or to add new programs.

*Probation and Show Cause Orders.* Probation or a show cause order is issued based upon an accrediting agency's concerns that an accredited institution may be out of compliance with one or more accrediting standards. It affords the institution the opportunity to respond before the institution loses accreditation. The institution may demonstrate that the concern is unfounded, that it has taken corrective action to resolve the concern, or that it has implemented an ongoing plan of action which is deemed appropriate to resolve the concern. The accrediting agency may then vacate the probation or show cause order, continue the probation or show cause order or seek additional information through reports required of the institution. If the agency's concerns are not resolved, it may act to withdraw accreditation from the institution.

In a letter from ACCSCT dated June 8, 2007, the Company was informed of a Probation action regarding our Everest College campus in San Francisco, CA. In another letter from ACCSCT dated June 8, 2007, the Company was informed of a Probation action regarding our Everest Institute campus in Houston, Texas. In a letter from ABHES dated July 26, 2007, the Company was informed of a Show Cause action regarding

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our NST campuses in Miami and Hialeah, Florida. With respect to the schools identified above which have been placed on Probation or received Show Cause orders, each of these locations represented less than 1.6% of our campuses fiscal 2007 operating profit (before corporate overhead allocation) individually, and less than 2.9% in aggregate.

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Since accreditation is required for an institution to be eligible to participate in the federal student financial aid programs, the failure by one or more of these schools to satisfactorily resolve the show cause or probation orders could have a material adverse effect on our business, results of operation and financial condition.

*Supplemental Reports.* As of June 30, 2007, twenty of our colleges were placed on reporting to their respective accrediting agencies, primarily with respect to the completion, retention, and/or placement rates of their students. In certain of these cases, the periodic supplemental reports are required only with respect to particular programs at an institution, and not to the institution's overall completion or placement rates. We are working to improve these retention and placement rates in the identified programs at these schools.

### **Federal Support for Post-Secondary Education in the U.S.**

While many states support their public colleges and universities through direct state subsidies, the federal government provides a substantial part of its support for post-secondary education through grants and loans to students who can apply the funds received to pay for their educational costs at any institution certified by the ED as eligible to participate in the federally funded student financial aid programs. Since 1972, Congress has expanded the scope of the HEA by, among other things, (i) providing that students attending proprietary institutions, such as our institutions, are eligible for assistance under the Title IV Programs, (ii) establishing a program for loans to parents of eligible students, (iii) opening the Title IV Programs to part-time students, and (iv) increasing maximum loan limits and in some cases eliminating the requirement that students demonstrate financial need to obtain federally guaranteed loans. The Federal Direct Loan Program ( FDL ) was also enacted, enabling students to obtain loans directly from the federal government rather than from commercial lenders.

Congress must reauthorize the student financial assistance programs of the HEA approximately every five to six years, and the last reauthorization took place in 1998. Consequently, Congress has been considering the reauthorization of the HEA. Although it is unclear at this time when reauthorization will be concluded and all of the changes Congress may make to the HEA as a result of reauthorization, we believe that upon completion of reauthorization, our institutions and students will continue to have access to Title IV funds. The changes made by Congress to date have expanded the access of our students and institutions to Title IV funds by increasing loan limits for first and second year students and lifting restrictions on on-line education programs and students. However, if other substantial changes are made to HEA that adversely affected the terms and conditions of our schools' participation in the Title IV programs as a result of reauthorization, it could have a material adverse impact on our operating results and cash flows.

Students at our U.S. institutions receive grants, loans and work opportunities to fund their education under several of the Title IV Programs, of which the two largest are the Federal Family Education Loan ( FFEL ) program and the Federal Pell Grant ( Pell ) program. Our institutions also participate in the Federal Supplemental Educational Opportunity Grant ( FSEOG ) program, and some of them participate in the Federal Perkins loan program and the Federal Work-Study ( FWS ) program.

Most aid under the Title IV Programs is awarded on the basis of financial need, generally defined under the HEA as the difference between the cost of attending an educational institution and the amount a student can reasonably contribute to that cost. All recipients of Title IV Program funds must maintain both a satisfactory grade point average and progress in a timely manner toward completion of their program of study.

*Pell.* Pell grants are the primary component of the Title IV Programs under which the ED makes grants to students who demonstrate financial need. Every eligible student is entitled to receive a Pell grant; there is no institutional allocation or limit. For the 2006-2007 award year, Pell grants ranged from \$400 to \$4,050 per year. Effective July 1, 2007, the maximum Pell increased to \$4,310. Amounts received by students enrolled in our institutions in the 2006-2007 award year under the Pell program equaled approximately 19.4% of our net revenue (on a cash basis).

*FSEOG.* FSEOG awards are designed to supplement Pell grants for the neediest students. FSEOG grants generally range in amount from \$100 to \$4,000 per year; however, the availability of FSEOG awards is limited by the amount of those funds allocated to an institution under a formula that takes into account the size of the institution, its costs and the income levels of its students. We are required to make a 25% contribution to students for all FSEOG awards disbursed. Resources for this institutional contribution may include institutional grants, scholarships and other eligible funds (i.e., funds from foundations and other charitable organizations) and, in certain states, portions of state scholarships and grants. During the 2006-2007 award year, our contribution was met by approximately \$2.0 million in funds from our institutions, funds from state scholarships and grants, and funds from foundations and other charitable organizations. Amounts received by students in our institutions under the federal share (including the FSEOG match) of the FSEOG programs in the 2006-2007 award year equaled approximately 1.0% of our net revenue (on a cash basis).



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*FFEL and FDL.* The FFEL program consists of two types of loans, Stafford loans, which are made available to students, and PLUS loans, which are made available to parents of students classified as dependents. Under the William D. Ford Federal Direct Loan ( FDL ) program, students may obtain loans directly from the ED rather than commercial lenders. The conditions on FDL loans are generally the same as on loans made under the FFEL program. None of our schools participate in the FDL program. Under the Stafford loan program, a student may borrow up to \$3,500 for the first academic year, \$4,500 for the second academic year and, in some educational programs, \$5,500 for each of the third and fourth academic years. Students with financial need qualify for interest subsidies while in school and during grace periods. Students who are classified as independent can increase their borrowing limits and receive additional unsubsidized Stafford loans. Such students can obtain an additional \$4,000 for each of the first and second academic years and, depending upon the educational program, an additional \$5,000 for each of the third and fourth academic years. The obligation to begin repaying Stafford loans does not commence until six months after a student ceases enrollment as at least a half-time student. Amounts received by students in our institutions under the Stafford program in the 2006-2007 award year equaled approximately 47.8% of our net revenue (on a cash basis). PLUS loans may be obtained by the parents of a dependent student in an amount not to exceed the difference between the total cost of that student's education (including allowable expenses) and other aid to which that student is entitled. Amounts received by students in our institutions under the PLUS program in the 2006-2007 award year equaled approximately 7.0% of our net revenue (on a cash basis).

Our schools and their students use a wide variety of lenders and guaranty agencies and have generally not experienced difficulties in identifying lenders and guaranty agencies willing to make federal student loans. However, Congress is considering changes to the terms and conditions under which lenders participate in the Title IV loan programs and make alternative private loans. If such changes were to have a material adverse effect on lenders, they could affect the availability of loans to our students to finance their education and their ability to pay our tuition and fees.

*Perkins.* Eligible undergraduate students may borrow up to \$4,000 under the Perkins program during each award year, with repayment delayed until nine months after the borrower ceases to be enrolled on at least a half-time basis. Perkins loans are made available to those students who demonstrate a financial need. Perkins loans are made from a revolving account, 75% of which was initially capitalized by the ED. Subsequent federal capital contributions, with an institutional contribution of one-third of the federal contribution, may be received if an institution meets certain requirements. Each institution collects payments on Perkins loans from its former students and loans those funds to currently enrolled students. Collection and disbursement of Perkins loans is the responsibility of each participating institution. During the 2006-2007 award year, we collected approximately \$4.7 million from our former students in repayment of Perkins loans. In the 2006-2007 award year, we had no required matching contribution. The Perkins loans disbursed to students in our institutions in the 2006-2007 award year equaled approximately 0.4% of our net revenue (on a cash basis).

*FWS.* Under the FWS program, federal funds are made available to pay up to 75% of the cost of compensation for part-time employment of eligible students, based on their financial need, to perform work for the institution or for off-campus public or non-profit organizations. At least 7% of an institution's FWS allocation must be used to fund student employment in community service positions. FWS earnings are given directly to the student for their own discretionary use.

### **Federal Oversight of the Title IV Programs in the U.S.**

The substantial amount of federal funds disbursed through the Title IV Programs coupled with the large numbers of students and institutions participating in those programs have led the U.S. Congress to require the ED to engage in a substantial level of regulatory oversight of institutions to ensure that public funds are properly used. Each institution which participates in the Title IV Programs must annually submit to the ED both an audit by an independent accounting firm of that institution's compliance with the Title IV Program requirements, and audited financial statements. The ED also conducts compliance reviews, which include on-site evaluations, and directs student loan guaranty agencies to conduct additional reviews relating to the FFEL programs. In addition, the Office of the Inspector General of the ED conducts audits and investigations of institutions in certain circumstances. Under the HEA, accrediting agencies and state licensing agencies also have responsibilities for overseeing institutions' compliance with Title IV Program requirements. As a result, each participating institution, including each of our U.S. institutions, is subject to frequent and detailed oversight and must comply with a complex framework of laws and regulations or risk being required to repay funds or becoming ineligible to participate in the Title IV Programs. In addition, the ED periodically revises its regulations and changes its interpretation of existing laws and regulations.

*Cohort Default Rates.* A significant requirement imposed by Congress is a limitation on participation in the Title IV Programs by institutions whose former students defaulted on the repayment of federally guaranteed or funded student loans at an excessive rate ( Cohort Default Rates ). Many institutions, including all of our institutions within the U.S., have responded by implementing aggressive student loan default management programs aimed at reducing the likelihood of students failing to repay their federally guaranteed loans in a timely manner. An institution's Cohort Default Rates under the FFEL and FDL programs are calculated on an annual basis as the rate at which student borrowers scheduled to begin repayment on their loans in one federal fiscal year default on those loans by the end of the next federal fiscal year. An institution that participates in both the FFEL and FDL programs receives a single weighted average Cohort Default Rate in place of an FFEL or FDL Cohort Default Rate. Any institution whose Cohort Default Rate equals or exceeds 25% for any





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one of the three most recent federal fiscal years may be found by the ED to lack administrative capability, and on that basis, placed on provisional certification status for up to three years. Provisional certification status does not limit an institution's access to Title IV Program funds but does subject that institution to closer review by the ED and possible summary adverse action if that institution commits violations of the Title IV Program requirements. Any institution whose Cohort Default Rates equal or exceed 25% for three consecutive years may lose eligibility to participate in the FFEL or FDL programs for the remainder of the federal fiscal year in which the ED determines that such institution has lost its eligibility and for the two subsequent federal fiscal years. In addition, an institution whose Cohort Default Rate for any federal fiscal year exceeds 40% may have its eligibility to participate in all of the Title IV Programs limited, suspended or terminated. The HEA also provides that institutions which become ineligible to participate in the Title IV Programs because of Cohort Default Rates in excess of the applicable levels would also become ineligible to participate in the Pell grant program. Since the calculation of Cohort Default Rates involves the collection of data from many non-governmental agencies (i.e., lenders, private guarantors or servicers), as well as the ED, the HEA provides a formal process for the review and appeal of the accuracy of Cohort Default Rates before the ED takes any action against an institution based on such rates.

We proactively manage our students' repayment obligations and have engaged a professional default management firm to assist us in managing the Cohort Default Rates at our U.S. institutions. We believe that professional default management services can continue to assist us in managing these Cohort Default Rates.

The following table sets forth the draft Cohort Default Rates for our institutions in the U.S. for federal fiscal year 2005 and the final rates for 2004 and 2003:

| <b>Institution</b>   | <b>2005(2)</b> | <b>2004</b> | <b>2003</b> |
|--|----------------|-------------|-------------|
| Ashmead College, Seattle, WA (Fife, Vancouver, and Everett, WA, and Tigard, OR) (1)                    | 5.20%          | 5.30%       | 4.70%       |
| Everest College, Alhambra, CA (Everest Institute, Chelsea, MA) (1)                                     | 10.40%         | 11.80%      | 10.50%      |
| Everest College, Anaheim, CA   | 7.90%          | 8.50%       | 7.00%       |
| Everest College, Colorado Springs, CO (McLean, VA) (1)   | 11.40%         | 8.60%       | 6.80%       |
| Everest College, Gardena, CA (Everest Institute, Norcross, GA) (1)                                     | 10.70%         | 10.20%      | 6.40%       |
| Everest College, Hayward, CA (combined with former New Orleans, LA Campus) (1)                         | 8.40%          | 8.90%       | 6.30%       |
| Everest College, Los Angeles, CA   | 17.60%         | 5.30%       | 8.40%       |
| Everest College, Ontario, CA (Columbus, OH)  | 12.50%         | 6.70%       | 7.30%       |
| Everest College, Phoenix, AZ (Mesa, AZ)  | 13.30%         | 9.50%       | 15.60%      |
| Everest College, Port Orchard, WA (Everett, and Tacoma, WA) (St. Louis, MO) (1)                        | 9.70%          | 9.00%       | 11.30%      |
| Everest College, Portland, OR (Vancouver, WA, Dallas, TX, and Silver Spring, MD) (1)                   | 14.90%         | 13.50%      | 9.60%       |
| Everest College, Renton, WA (Bryman College, Lynnwood, WA; Everest Institute, Bissonet, TX) (1)        | 6.60%          | 7.50%       | 6.40%       |
| Everest College, Reseda, CA  | 10.00%         | 8.40%       | 7.20%       |
| Everest College, Salt Lake City, UT (Fort Worth, TX)   | 15.50%         | 16.40%      | 13.10%      |
| Everest College, San Bernardino, CA  | 14.20%         | 13.00%      | 10.50%      |
| Everest College, San Francisco, CA (Chicago, IL) (1)   | 11.40%         | 9.40%       | 9.50%       |
| Everest College, San Jose, CA  | 10.60%         | 12.50%      | 11.40%      |
| Everest College, Skokie, IL (Burr Ridge, IL) (1)   | 8.40%          | 9.40%       | 8.10%       |
| Everest College, Springfield, MO (Ontario Metro, CA) (1)   | 14.90%         | 12.60%      | 10.60%      |
| Everest College, Thornton, CO (Aurora, CO, and Arlington, VA) (1)                                      | 14.50%         | 14.30%      | 10.10%      |
| Everest College, Torrance, CA  | 6.10%          | 8.60%       | 12.40%      |
| Everest Institute, Atlanta, GA (Jonesboro and Marietta, GA) (1)  | 16.00%         | 13.00%      | 10.20%      |
| Everest Institute, Brighton, MA (N. Aurora, IL)  | 12.70%         | 9.20%       | 7.50%       |
| Everest Institute, Cross Lanes, WV (DeKalb, GA and Eagan, MN) (1)                                      | 14.10%         | 15.40%      | 10.00%      |
| Everest Institute, Grand Rapids, MI, (Kalamazoo, MI, and Everest College, Merrillville, IN) (1)        | 8.70%          | 8.30%       | 6.40%       |
| Everest Institute, Newport News, VA (Chesapeake, VA) (1)   | 13.70%         | 14.10%      | 7.80%       |
| Everest Institute, Pittsburgh, PA  | 15.20%         | 11.70%      | 13.20%      |
| Everest Institute, Rochester, NY (Everest College, Mid Cities, TX) (1)                                 | 16.60%         | 13.20%      | 9.40%       |
| Everest Institute, San Antonio, TX (Greenspoint, and Hobby, TX) (1)                                    | 7.80%          | 17.50%      | 14.90%      |
| Everest Institute, Southfield, MI (Dearborn and Detroit, MI, Austin, TX, and South Plainfield, NJ) (1) | 15.10%         | 14.50%      | 4.90%       |
| FMU, Orlando (North), FL (Orlando South, and Melbourne, FL) (1)  | 8.30%          | 12.40%      | 9.00%       |
| FMU, Pinellas, FL (Lakeland and Jacksonville, FL) (1)  | 10.00%         | 11.40%      | 10.60%      |
| FMU, Pompano Beach, FL (Merrionette Park, IL)  | 3.20%          | 10.00%      | 7.70%       |



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|  |        |        |        |
|--|--------|--------|--------|
| FMU, Tampa, FL (Brandon and Orange Park, FL) (1)   | 11.30% | 13.30% | 9.20%  |
| Las Vegas College, Henderson, NV (1)   | 13.40% | 16.30% | 13.60% |
| National School of Technology, Kendall, FL (Ft. Lauderdale, FL) (1)                      | 4.00%  | 11.80% | 12.50% |
| National School of Technology, North Miami Beach, FL (Hialeah, FL) (1)                   | 4.60%  | 12.90% | 9.00%  |
| WyoTech, Daytona Beach, FL   | 8.40%  | 14.30% | 8.00%  |
| WyoTech, Fremont, CA (Oakland, CA) (1)   | 11.80% | 14.20% | 14.00% |
| WyoTech, Laramie, WY (Sacramento, CA and Blairsville, PA) (1)                            | 2.50%  | 3.70%  | 4.00%  |
| WyoTech, Long Beach, CA (Everest College, West Los Angeles and City of Industry, CA) (1) | 16.60% | 13.60% | 12.50% |
| Consolidated Average Cohort Default Rate   | 10.60% | 11.60% | 9.30%  |

(1) Indicates additional locations wherein the Cohort Default Rates are blended with the main campus.

(2) Rates are based on the draft Cohort Default Rates issued on February 12, 2007, and are subject to change when final rates are published. In addition, if an institution's Cohort Default Rate for loans under the Perkins program exceeds 15% for any federal award year (i.e., July 1 through June 30), that institution may be placed on provisional certification status for up to three years. Eleven of our institutions have Perkins program Cohort Default Rates in excess of 15% for students who were scheduled to begin repayment in the 2005 federal award year, the most recent year for which such rates have been calculated. During fiscal 2005, Perkins loans amounted to a very small percentage of the total cash revenues of the corporation but were still a useful funding source for those schools that participate and make use of those funds. The Perkins program Cohort Default Rates for these institutions generally range from less than 10% to the mid-twenties. Historically, provisional certification due to excessive Perkins program Cohort Default Rates has not had a material adverse effect on our business.

In addition to the efforts of our outside professional default management firm, each of our colleges has adopted an internal student loan default management plan. Those plans emphasize to students the importance of meeting loan repayment requirements and provide for extensive loan counseling, along with methods to increase student persistence and completion rates and graduate employment (placement) rates. Immediately upon a student's cessation of enrollment, the professional default management firm initiates regular contact with the student, maintains regular contact throughout the grace period, and continues this activity through the entire cohort period. The colleges continue to work with the default management firm to maintain accurate and up-to-date information on address changes, marital status changes, or changes in circumstance that may allow the student to apply for deferments. These activities are all in addition to the loan servicing and collection activities of FFEL lenders and guarantee agencies.

*Regulatory Oversight.* The HEA provides for a three-part initiative, generally referred to as the Triad, to provide regulatory oversight of post-secondary education institutions. The first part of the Triad consists of accrediting agencies which review and accredit our campuses. Their examinations pertain to such areas as student achievement, curriculum, faculty, facilities, equipment, admissions, financial responsibility and timeliness of student refunds. The Triad provisions also require each accrediting agency recognized by the ED to undergo comprehensive periodic reviews by the ED to ascertain whether such accrediting agency is adhering to required standards.

The second part of the Triad involves the standards to be applied by the ED in evaluating the financial responsibility and administrative capability of institutions participating in the Title IV Programs. In addition, the Triad mandates that the ED periodically review the eligibility and certification to participate in the Title IV Programs of every such eligible institution. By law, all institutions are required to undergo a recertification review at least every six years, although the ED may recertify an institution for a shorter time period. Under these standards, each of our institutions is evaluated by the ED on a routine basis. A denial of recertification would preclude an institution from continuing to participate in the Title IV Programs.

The third part of the Triad involves approvals by state education agencies with jurisdiction over educational institutions. State requirements are important to an institution's eligibility to participate in the Title IV Programs since an institution must be licensed or otherwise authorized to operate in the state in which it offers education in order to be certified as eligible. The level of regulatory oversight varies substantially from state to state. State laws establish standards for instruction, qualifications of faculty, location and nature of facilities, financial policies and responsibility and other operational matters. State laws and regulations may limit our ability to obtain authorization to operate in certain states, to award degrees or diplomas, or offer new degree programs. Certain states prescribe standards of financial responsibility that are different from those prescribed by the ED. We believe that each of our campuses is in substantial compliance with state authorizing and licensure laws.

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*Compliance with Regulatory Standards and Effect of Regulatory Violations.* Our schools are subject to audits and program compliance reviews by various external agencies, including the ED, state authorizing agencies, student loan guaranty agencies and accrediting agencies. The HEA and its implementing regulations also require that an institution's administration of Title IV Program funds be audited annually by an independent accounting firm. The resulting audit report must be submitted to the ED for review. If the ED or another regulatory agency determined that one of our institutions improperly disbursed Title IV Program funds or violated a provision of the HEA or the ED's regulations, that institution could be required to repay such funds, and could be assessed an administrative fine. The ED could also subject the institution to a heightened level of monitoring, under which the institution's federal funding requests would be more carefully reviewed by the ED, or the ED could transfer the institution from the advance system of receiving Title IV Program funds to the reimbursement system, under which an institution must document the students' eligibility for Title IV Program funds before receiving such funds from the ED. Violations of Title IV Program requirements could also subject us or our schools to other civil and criminal penalties.

From time to time, certain of our institutions have also been the subject of program reviews by the ED. Program reviews are often unresolved for several months or years with little or no communication from the ED. We do not believe that any of our currently pending program reviews with the ED is reasonably likely to have a material adverse effect on the Company. However, if the ED were to make significant findings of non-compliance by any of our schools in any ongoing or future program review, it could have a material adverse effect on our business, results of operations or financial condition.

Significant violations of Title IV Program requirements by us or any of our institutions could be the basis for a proceeding by the ED to limit, suspend, or terminate the participation of the affected institution in the Title IV Programs. Generally, such a termination extends for 18 months before the institution may apply for reinstatement of its participation. There is no proceeding pending to fine any of our institutions or to limit, suspend, or terminate any of our institutions' participation in the Title IV Programs, and we have no reason to believe that any such proceeding is contemplated. Any such action that substantially limited our schools' participation in the Title IV Programs could have a material adverse effect on our business, results of operations and cash flows, and financial condition.

*Financial Responsibility Standards.* All institutions participating in the Title IV Programs must satisfy a series of specific standards of financial responsibility. Institutions are evaluated for compliance with those requirements in several circumstances, including as part of the ED's recertification process and also annually as each institution submits its audited financial statements to the ED. As part of the evaluation of an institution's financial responsibility, the ED calculates three financial ratios for an institution: an equity ratio, a primary reserve ratio, and a net income ratio. Each ratio is scored separately and then combined to determine the institution's financial responsibility. If an institution's composite score is below the minimum requirement for unconditional approval (which is a score of 1.5) but within a designated threshold level (the Zone, which is 1.0 to 1.4), such institution may take advantage of an alternative that allows it to continue to participate in the Title IV Programs for up to three years under additional monitoring and reporting procedures but without having to post a letter of credit in favor of the ED. If an institution's composite score falls below the minimum threshold level of 1.0 or is in the Zone for more than three consecutive years, the institution may be required to post a letter of credit in favor of the ED.

For fiscal 2007, our calculations reflect that all of our schools exceed the requirements for financial responsibility on an individual basis, with composite scores ranging from 1.5 to 3.0. For purposes of performing such calculations on an individual school basis, the Company makes certain allocations of corporate cash to the individual campuses. Also, our Company, on a consolidated basis, meets the requirements with the composite score of 1.7.

An institution that is determined by the ED not to have met the standards of financial responsibility is nonetheless entitled to participate in the Title IV Programs if it can demonstrate to the ED that it is financially responsible on an alternative basis. An institution may do so by posting a surety either in an amount equal to 50% (or greater, as the ED may require) of the total Title IV Program funds received by students enrolled at such institution during the prior year or in an amount equal to 10% (or greater, as the ED may require) of such prior year's funds if the institution also agrees to provisional certification and to transfer to the reimbursement or cash monitoring system of payment for its Title IV Program funds. The ED has interpreted this surety condition to require the posting of an irrevocable letter of credit in favor of the ED.

Under a separate standard of financial responsibility, if an institution has made late Title IV refunds to students in its prior two years, the institution is required to post a letter of credit in favor of the ED in an amount equal to 25% of the total Title IV Program refunds paid by the institution in its prior fiscal year. As of July 1, 1997, this standard was modified to

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exempt an institution that has not been found to make late refunds to 5% or more of its students who were due refunds in either of the two most recent fiscal years and has not been cited for a reportable condition or material weakness in its internal controls related to late refunds in either of its two most recent fiscal years. Based on this standard, we currently have outstanding letters of credit in the aggregate amount of approximately \$2.7 million because of late refunds at 8 of our institutions. There can be no assurance that, upon review by the ED, we will not be required to post additional letters of credit in favor of the ED on behalf of the affected colleges.

*Restrictions on Acquiring or Opening Additional Schools and Adding Educational Programs.* An institution which undergoes a change of ownership resulting in a change in control, including all of the institutions that we have acquired or will acquire, must be reviewed and recertified for participation in the Title IV Programs under its new ownership. If an institution is recertified following a change of ownership, it will be on a provisional basis. During the time an institution is provisionally certified, it may be subject to closer review by the ED and to summary adverse action for violations of Title IV Program requirements, but provisional certification does not otherwise limit an institution's access to Title IV Program funds. Institutions can also be placed on provisional certification primarily as a result of late refunds, financial aid audit findings and other miscellaneous matters. As of June 30, 2007, two of our acquired institutions are on provisional certification due to their change in ownership, and 15 institutions are on provisional certification for other reasons.

The HEA generally requires that proprietary institutions be fully operational for two years before applying to participate in the Title IV Programs. However, under the HEA and applicable regulations, an institution that is certified to participate in the Title IV Programs may establish an additional location and apply to participate in the Title IV Programs at that location without reference to the two-year requirement, as long as such additional location satisfies all other applicable Title IV Program participation eligibility requirements. Our expansion plans are based, in part, on our ability to acquire schools that can be recertified and to open additional locations as branch campuses of existing institutions.

Generally, if an institution is eligible to participate in the Title IV Programs and adds an educational program after it has been designated as an eligible institution, the institution must apply to the ED to have the additional program designated as eligible. However, an institution is not obligated to obtain ED approval of an additional program that leads to an associate's, bachelor's or master's degree or which prepares students for gainful employment in the same or related recognized occupation through an educational program that has previously been designated as an eligible program at that institution and meets certain minimum length requirements. Further, short-term educational programs, which generally consist of those programs that provide at least 300 but less than 600 clock hours of instruction, are eligible only for FFEL funding and only if they have been offered for a year and the institution can demonstrate, based on an attestation by its independent auditor, that at least 70% of all students who enroll in such programs complete them within a prescribed time and at least 70% of those students who graduate from such programs obtain employment in the recognized occupation for which they were trained within a prescribed time. Certain of our colleges offer such short-term programs in compliance with ED regulations. Students enrolled in such programs represent a small percentage of the total enrollment at our colleges. In the event that an institution erroneously determines that an educational program is eligible for purposes of the Title IV Programs without the ED's express approval, the institution would likely be required to repay the Title IV Program funds provided to students in that educational program. Certain of the state authorizing agencies and accrediting agencies with jurisdiction over our campuses also have requirements that may, in certain instances, limit our ability to open a new campus, acquire an existing campus or establish an additional location of an existing institution or begin offering a new educational program.

*Ability to Benefit Regulations.* Under certain circumstances, an institution may elect to admit non-high school graduates into certain of its programs of study. In such instances, the institution must demonstrate that the student has the ability to benefit from the program of study. Eighty-eight of our colleges admit ATB students into their programs. The basic evaluation method to determine that a student has the ability to benefit from the program is the student's achievement of a minimum score on a test approved by the ED and independently administered in accordance with ED regulations. In addition to the testing requirements, the ED regulations prohibit enrollment of ATB students from constituting 50% or more of the total enrollment of the institution. None of our colleges that accept ATB students has an ATB enrollment population that exceeds 50% of the total enrolled population. As of June 30, 2007, ATB students represented approximately 15.7% of our total student population.

*The 90/10 Rule* Under a provision of the HEA commonly referred to as the 90/10 Rule, a private, for-profit institution, such as each of our institutions, would cease being eligible to participate in the Title IV Programs if, on a cash accounting basis, more than 90% of its revenue for the prior fiscal year was derived from the Title IV Programs. Any institution that violates the 90/10 Rule immediately becomes ineligible to participate in the Title IV Programs and is unable to apply to regain its eligibility until the following fiscal year. Since this requirement took effect, each of our U.S. institutions has met this requirement in each fiscal year. For fiscal 2007, approximately 75.2% of our revenues (on a cash basis) were derived from federal Title IV programs (as defined herein). We regularly monitor compliance with this requirement in order to minimize the risk that any of our institutions would derive more than the applicable thresholds of its revenue from the Title IV Programs for any fiscal year. If an institution appears likely to approach the threshold, we evaluate the appropriateness of making changes in student funding and financing to ensure compliance with the 90/10 Rule.



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*Restrictions on Payment of Bonuses, Commissions or Other Incentives.* The HEA prohibits an institution from providing any commission, bonus or other incentive payment based directly or indirectly on success in securing enrollments or financial aid to any person or entity engaged in any student recruitment, admission or financial aid awarding activity for programs eligible for Title IV Program funds. The ED has published regulations to attempt to clarify this so-called incentive compensation prohibition. The regulations identify 12 compensation arrangements that the ED has determined are not in violation of the incentive compensation prohibition, including the payment and adjustment of salaries, bonuses and commissions in certain circumstances. The ED's regulations do not establish clear criteria for compliance in all circumstances, and the ED has announced that it will no longer review and approve individual schools' compensation plans. Nonetheless, we believe that our current compensation plans are in compliance with HEA standards and the ED's regulations, although we cannot provide assurance that the ED will not find deficiencies in our compensation plans.

*Return of Title IV Funds.* In 1998, amendments to the HEA changed substantially the refund requirements regarding the disposition of Title IV funds when a recipient of Title IV funds withdraws from an institution. We believe our return of Title IV funds calculations are in compliance with current regulations to implement these requirements.

## **Canadian Regulations**

Students attending our schools in Canada finance their education through a combination of family contributions, individual resources (including earnings from full or part-time employment) and federal and provincial financial aid programs.

The schools operated by our CDI division are subject to extensive regulations in the province of Ontario. We believe these schools currently hold the necessary registrations, approvals and permits and meet the eligibility requirements to participate in governmental financial aid program. If these schools cannot continue to meet eligibility standards or fail to comply with applicable requirements, it could have a material adverse effect on our Canadian business, results of operations or financial condition.

*Licensing/Registration.* Our ability to provide private-for-profit post-secondary education and grant diplomas to graduates in Canada is regulated by Ontario government. In the province in which we operate, the Ontario Ministry of Training, Colleges and Universities is responsible for registering and regulating private-for-profit educational institutions. The private career college act stipulate that an education provider, such as our Canadian division, CDI, must register each of its diploma granting programs as well as each of its campuses with the ministry. Typical requirements for obtaining this registered status include the financial viability of the campus, the integrity and honesty of the applicant's officers and directors, and the reasonable expectation that the course of study offered by the applicant will provide the skills requisite for employment in the vocation in which it is being trained. Registration must be renewed by the applicant annually. The Province of Ontario has the statutory power to deny, refuse to renew, suspend or revoke our registration if we are in breach of a term or condition of the registration.

*Government-Sponsored Financial Aid.* Financial aid programs are offered to our Canadian students by the Canadian federal government and the government of Ontario. The Province operates the provincial financial aid program for students and administers these loans in conjunction with the administration of the CSL loans granted to students studying within the province. In order for students enrolled in a program of study at a private-for-profit educational institution to be eligible for public financial aid, the private-for-profit educational institution, as well as the specific program of study, must be registered in good standing under the applicable PCCA legislation in the Province. In addition, the Province typically requires that to be financial aid eligible, the specific program must be at the post-secondary level, be taught on a full-time basis, have a duration of not less than 12 weeks and lead to a diploma or certificate conferred upon the student at the completion of the program. The Province also typically require that the private-for-profit educational institution maintain specific admissions requirements for entrance into eligible programs and retain specific documentation on each student receiving public financial aid. Each of the diploma-granting programs offered by CDI campuses across Ontario are eligible for students to apply for federal and provincial aid.

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Financial aid programs provide students with access to funds during their study period based on a needs test. The loans are provided through the National Student Loan Center for the program. The funds are loaned interest-free to the student during the study period and this interest-free period generally continues for a six-month period after graduation. After the interest-free period has concluded, the student must begin repayments of the loan with interest. During the student's interest-free period, interest is paid by the federal and/or provincial governments to the National Student Loan Center. The Ontario government has an initiative to reduce the number of loan defaults in that province. In addition to several other facets of this initiative, the Ministry of Training, Colleges and Universities (the Ministry) has adopted a policy whereby they will only guarantee defaulted student loans to a certain capped amount, beyond which the applicable private career college is responsible for guaranteeing repayment. For the 2007/08 default cohort year, we have six Ontario locations that were required to issue a promissory note and/or collateral due to the default sharing program. Should the default rate in 2010 be below 25%, no payment will be required.

### **ALTERNATIVE LOANS FOR OUR STUDENT**

Because the government-sponsored financial aid available to our students is generally less than their tuition costs and other financial needs, many of our students secure private loans to finance a portion of their educational costs. These private loans are made directly to our students by financial institutions and are not guaranteed under the FFEL program.

The fees and interest rates on these private loans are generally higher than the loans made under the FFEL program due to the lack of a government guarantee on these private loans. The fees and interest rates on these private loans vary depending on the credit history of the student or co-borrower. Many of our students, either individually or with a co-borrower, are able to obtain some type of loan from financial institutions.

We have also developed several loan programs with financial institutions for students with low credit scores who otherwise would not qualify for loans. These loan programs require that we allow the financial institution providing the loans to retain an agreed-upon portion of the loans funded as a reserve against future defaults on these loans. We refer to these types of loans as discount loans, since we incur a portion of the default risk related to these students' loans by taking a discount on the disbursement. As collectibility of these amounts is not reasonably assured, we record this discount as a reduction to revenue.

We believe that arranging with lenders to provide discount loans to our students utilizing these lower loan amounts allows our students to receive needed financing. If there were significant changes in the credit criteria established by the financial institutions providing private loans to our students, and we were not able to arrange for adequate alternative financing sources for the students attending our schools, the ability of students to finance their education would be impaired, which could have a material adverse effect on our student population, financial condition, results of operations, and cash flows.



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**ITEM 1A. RISK FACTORS**

**Risks Related To Extensive Regulation Of Our Business**

*If we fail to follow extensive regulatory requirements for our business, we could suffer severe fines and penalties, including loss of access to federal student loans and grants for our students.*

We derive a majority of our revenues on a cash basis from federal student financial aid programs. To participate in such programs an institution must obtain and maintain authorization by the appropriate state agencies, accreditation by an accrediting agency recognized by the ED, and certification by the ED. As a result, our schools are subject to extensive regulation by these agencies that, among other things, requires us to:

undertake steps to assure that our schools do not have Cohort Default Rates of 25% or more for three consecutive Cohort years;

limit the percentage of revenues (on a cash basis) derived at each of our institutions from federal student financial aid programs to less than 90%;

adhere to financial responsibility and administrative capability standards;

prohibit the payment of certain incentives to personnel engaged in student recruiting, admissions activities or awarding financial aid;

achieve stringent completion and placement outcomes for short-term programs; and

make timely refunds of tuition when a student withdraws from one of our institutions.

These regulations also affect our ability to acquire or open additional schools or change our corporate structure. These regulatory agencies periodically revise their requirements and modify their interpretations of existing requirements.

If one or more of our schools were to violate any of these regulatory requirements, we could suffer fines, penalties or other sanctions, including the loss of our ability to participate in federal student financial aid programs at those schools, any of which could have a material adverse effect on our business. We cannot predict how all of these requirements will be applied, or whether we will be able to comply with all of the requirements in the future. Some of the most significant regulatory requirements and risks that apply to our schools are described in the following paragraphs.

*The U.S. Congress may change the law or reduce funding for federal student financial aid programs, which could harm our business.*

Congress regularly reviews and revises the laws governing the federal student financial aid programs and annually determines the funding level for each of these programs. Any action by Congress that significantly reduces funding for the federal student financial aid programs or the ability of our schools or students to participate in these programs could harm our business. Legislative action may also increase our administrative costs and burdens and require us to modify our practices in order for our schools to comply fully with applicable requirements, which could have a material adverse effect on our business.

Congress has been reviewing the reauthorization of HEA, which provides for federal student financial aid programs. Congress must reauthorize the student financial assistance programs of the HEA approximately every five to six years, and the last reauthorization took place in 1998. Approximately 75.2% of our revenues (on a cash basis) are derived from federal student financial aid programs. It is uncertain when reauthorization will be completed and all of the changes Congress may ultimately make to the HEA as a result of reauthorization. As in previous reauthorizations, we believe that following reauthorization of HEA our students will have continue to access to federal student financial aid programs. However, any action by Congress that significantly reduces funding for the federal student financial aid programs or the ability of our schools or students to participate in these programs could have a material adverse effect on our business. Legislative action may also increase

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our administrative costs and require us to modify our practices in order for our schools to comply fully with applicable requirements.

***If we do not meet specific financial responsibility ratios and tests established by the ED, our U.S. schools may lose eligibility to participate in federal student financial aid programs.***

To participate in the federal student financial aid programs, an institution must either satisfy quantitative standards of financial responsibility, or post a letter of credit in favor of the ED and possibly accept other conditions on its participation in the federal student financial aid programs. Each year, based on financial information submitted by institutions that participate in federal student financial aid programs, the ED calculates three financial ratios for an institution: an equity ratio, a primary reserve ratio and a net income ratio. Each of these ratios is scored separately and then combined to determine

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the institution's financial responsibility or composite score. If an institution's score is above 1.5, it may continue its participation in federal student financial aid programs. For fiscal 2007, our calculations show that all of our schools exceed this requirement on an individual basis and are eligible to participate in the federal student financial aid programs, with composite scores ranging from 1.5 to 3.0. On a consolidated basis, we also exceed this requirement with the composite score of 1.7. We cannot assure you that we and our institutions will continue to satisfy the numeric standards in the future.

***Our U.S. schools may lose eligibility to participate in federal student financial aid programs if the percentage of their revenues derived from those programs is too high.***

A proprietary institution loses its eligibility to participate in the federal student financial aid programs for a period of one year if it derives more than 90% of its revenues, on a cash basis, from these programs in any fiscal year. Any institution that violates this rule immediately becomes ineligible to participate in federal student financial aid programs and is ineligible to reapply to regain its eligibility until the following fiscal year. Based on our calculations, none of our institutions received more than 90% of its revenues, on a cash basis, in fiscal 2007, with our highest institution receiving 87.2% of its revenues, on a cash basis, from federal student financial aid programs. On a consolidated basis, we received 75.2% of our revenues, on a cash basis, from federal student financial aid programs in fiscal 2007. If any of our institutions, depending on its size, loses eligibility to participate in federal student financial aid programs, it could have a material adverse effect on our business.

***Our U.S. schools may lose eligibility to participate in federal student financial aid programs if their current and former students' loan default rates on federally guaranteed student loans made by third parties are too high.***

An institution may lose its eligibility to participate in some or all of the federal student financial aid programs if defaults by its former students on their federally guaranteed student loans funded by third parties equal or exceed 25% per year for three consecutive years. For federal fiscal year 2004, the last year for which final rates have been published, default rates for our institutions range from a low of 3.7% to a high of 17.5%. We review all annually published Cohort Default Rates and appeal the rates we believe are inaccurate. If any of our institutions, depending on its size, were to lose eligibility to participate in federal student financial aid programs because of high student loan default rates, it could have a material adverse effect on our business.

***One or more of our institutions may have to post a letter of credit or be subject to other sanctions if they do not correctly calculate and timely return Title IV Program funds for students who withdraw before completing their program of study.***

A school participating in Title IV Programs must correctly calculate the amount of unearned Title IV Program funds that was disbursed to students who withdrew from their educational programs before completing them, and must return those unearned funds in a timely manner, generally within 45 days of the date the school determines that the student has withdrawn. If the unearned funds are not properly calculated and timely returned, we may have to post a letter of credit in favor of the ED or be otherwise sanctioned by the ED. An institution is required to post a letter of credit with the ED in an amount equal to 25% of the total dollar amount of unearned Title IV Program funds that the institution was required to return with respect to withdrawn students during its most recently completed fiscal year, if the institution was found in an audit or program review to have untimely returned unearned Title IV Program funds with respect to 5% or more of the students in the audit or program review sample of withdrawn students, in either of its two most recently completed fiscal years. The requirement to post a letter of credit or other sanctions by the ED could increase our cost of regulatory compliance and adversely affect our results of operations.

***If regulators do not approve our acquisitions, the acquired school(s) would not be permitted to participate in federal student financial aid programs.***

When we acquire an institution that participates in federal student financial aid programs, we must seek approval from the ED and most applicable state agencies and accrediting agencies, because an acquisition is considered a change of ownership or control of the acquired institution under applicable regulatory standards. A change of ownership or control of an institution under the ED standards can result in the temporary suspension of the institution's participation in the federal student financial aid programs unless a timely and materially complete application for recertification is filed with the ED and the ED issues a temporary certification document. If we are unable to obtain approvals from the state agencies, accrediting agencies or ED for any institution we may acquire in the future, depending on the size of that acquisition, such a failure to obtain approval could have a material adverse effect on our business.

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***If regulators do not approve transactions involving a change of control or change in our corporate structure, we may lose our ability to participate in federal student financial aid programs.***

Additionally, if regulators do not approve transactions involving a change of control of the Company, we may lose our ability to participate in federal student financial aid programs. If we experience a change of control under the standards of applicable state agencies or accrediting agencies or the ED, we or the affected institutions must seek the approval of the relevant agencies. Some of these transactions or events, such as a significant acquisition or disposition of our common stock by third parties on the open market or through a tender offer, may be beyond our control. The adverse regulatory effect of a change of ownership resulting in a change of control could also discourage bids for our outstanding shares of common stock at a premium and could have an adverse effect on the market price of our common stock.

***If any of our U.S. schools fails to maintain its accreditation or its state authorization, that institution may lose its ability to participate in federal student financial aid programs.***

An institution that grants degrees, diplomas or certificates must be authorized by the relevant agencies of the state in which it is located and, in some cases, other states. Requirements for authorization vary substantially among the states. Additionally, both an approval to operate in a state and accreditation by an accrediting agency recognized by the ED are required for an institution to participate in the federal student financial aid programs. If any of our U.S. campuses were to lose its accreditation or its state authorization, it could have a material adverse effect on our business.

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

If any of these campuses were to lose their accreditation, the Company would continue to generate revenues from continuing students, but would consider teaching out these campuses as they would be significantly competitively disadvantaged compared to other schools where students are eligible to receive federal student financial aid. During any teach-out process, the Company's revenue would decline more rapidly than operating expenses and the Company would expect to incur operating losses at those campuses. The Company could also expect to incur increased bad debt expense if students no longer have access to federal financial aid. Additionally, if the Company were to lose accreditation at one or more of its schools to which it has ascribed value for accreditation as part of purchase accounting, the Company would test the amounts it had allocated to such asset for impairment. If the estimate of the present value of these future cash flows were below the carrying values of the accreditation asset, the Company would consider its related accreditation asset to be impaired and take a charge against the amounts it had allocated to such accreditation.

***If we fail to demonstrate administrative capability to the ED, our business could suffer.***

ED regulations specify extensive criteria an institution must satisfy to establish that it has the requisite administrative capability to participate in federal student financial aid programs. These criteria require, among other things, that the institution:

comply with all applicable federal student financial aid regulations;

have capable and sufficient personnel to administer the federal student financial aid programs;

have acceptable methods of defining and measuring the satisfactory academic progress of its students;

provide financial aid counseling to its students; and

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submit all reports and financial statements required by the regulations.

If an institution fails to satisfy any of these criteria, the ED may:

require the repayment of federal student financial aid funds;

transfer the institution from the advance system of payment of federal student financial aid funds to the reimbursement system of payment or cash monitoring;

place the institution on provisional certification status; or

commence a proceeding to impose a fine or to limit, suspend or terminate the participation of the institution in federal student financial aid programs.

Should one or more of our institutions be limited in their access to, or lose, federal student financial aid funds due to their failure to demonstrate administrative capability, our business could be materially adversely affected.

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### ***Regulatory agencies or third parties may commence investigations, bring claims or institute litigation against us.***

Because we operate in a highly regulated industry, we may be subject from time to time to investigations, claims of non-compliance, or lawsuits by governmental agencies or third parties, which may allege statutory violations, regulatory infractions, or common law causes of action. If the results of the investigations are unfavorable to us or if we are unable to successfully defend against third-party lawsuits, we may be required to pay money damages or be subject to fines, penalties, injunctions or other censure that could have a materially adverse effect on our business. Even if we adequately address the issues raised by an agency investigation or successfully defend a third-party lawsuit, we may have to devote significant money and management resources to address these issues, which could harm our business. In particular, the securities litigation currently pending against us and certain of our current and former officers and directors could demand significant management time and financial resources to defend and could adversely affect our business. Adverse publicity regarding litigation against us could also negatively affect our business.

### ***Investigations, claims and actions against companies in our industry could adversely affect our business and stock price.***

Starting in 2004 and continuing through 2007, several companies in the for-profit postsecondary education industry were subject to increased regulatory scrutiny. In some cases, allegations of wrongdoing have resulted in reviews or investigations by the Justice Department, the Securities and Exchange Commission (the SEC), the ED, state agencies, accrediting agencies and other entities. These allegations, reviews and investigations and the accompanying adverse publicity could have a negative impact on the for-profit postsecondary education industry in general, our business and the market price of our common stock.

### ***We are subject to sanctions if we pay impermissible commissions, bonuses or other incentive payments to individuals involved in certain recruiting, admissions or financial aid activities.***

An institution participating in Title IV Programs may not provide any commission, bonus or other incentive payment based directly or indirectly on success in securing enrollments or financial aid to any person or entity engaged in any student recruitment or admission activity or in making decisions regarding the awarding of Title IV Program funds. The law and regulations governing this requirement do not establish clear criteria for compliance in all circumstances. If the ED determined that one of our institution's compensation practices violated these standards, the ED could subject the institution to monetary fines, penalties, or other sanctions. Any substantial fine or penalty or other sanction levied against one or more of our schools could have a material adverse effect on our financial condition, results of operations and cash flows.

### ***Failure to comply with extensive Canadian regulations could affect the ability of our Canadian schools to participate in Canadian financial aid programs.***

Our post-secondary schools in Canada derive a significant percentage of their revenue on a cash basis from Canadian governmental financial aid programs, and our Canadian students receive loans under student financial aid programs.

Our Canadian schools must meet eligibility standards to administer these programs and must comply with extensive statutes, rules, regulations and requirements. If our Canadian schools cannot meet these and other eligibility standards or fail to comply with applicable requirements, it could have a material adverse effect on our business.

Additionally, the Canadian and Ontario provincial governments continuously review the legislative, regulatory and other requirements relating to student financial assistance programs due to political and budgetary pressures. Although we do not currently anticipate a significant reduction in the funding for these programs, any change that significantly reduces funding or the ability of our schools to participate in these programs could have a material adverse effect on our business and results of operations.

## **Operational Risks That Could Have a Material Adverse Effect on Our Business**

### ***If the financial institutions that provide alternative loans to our students withdraw from that business or significantly change their credit criteria, our business would be harmed.***

A significant number of our students receive a portion of their financing to attend our schools through alternative loans from financial institutions. These private loans are made to our students by financial institutions and are not guaranteed under the FFEL program. If there were significant changes in the credit criteria established by the financial institutions providing private loans to our students, and we were not able to arrange for adequate alternative financing sources for the students attending our schools, the ability of students to finance their education would be impaired, and our student population, financial condition, results of operations, and cash flows could all be materially adversely affected.

***We rely on a single company to provide financial aid processing for our students. If that company fails or refuses to timely provide such service, or materially increases its fees, our business could be harmed.***

We utilize a single company to provide the financial aid packaging and processing for our students' financial aid. We have experienced periodic delays or backlogs of financial aid processing when this company's resources have become overburdened. If this company were to cease doing business with us, we could experience an interruption in financial aid processing for our students. Although we believe we could find alternative service providers or we could begin to process financial aid in-house, we may be unable to establish relationships with alternative service providers that will be as favorable as the one we have now. For example, new service providers may have higher prices, lower capacity, lower quality standards or longer delivery times. If we are unable to provide financial aid processing for our students in a timely and accurate manner, or if such services are delayed or become more expensive, this could have a material adverse effect on our business and results of operations.

***If students fail to pay their outstanding balances, our business will be harmed.***

We offer a variety of payment plans to help students pay that portion of their education expense not covered by financial aid programs. These balances are unsecured and not guaranteed. Losses related to unpaid student balances in excess of the amounts we have reserved for bad debts could have a material adverse effect on our business.

***Failure to effectively grow our revenues or reduce our expenses could harm our business.***

From the inception of our business through fiscal 2004, we rapidly grew our company through both acquisitions and new branch campuses. Our rapid growth in capacity resulted in additional operating expenses that have not been offset by higher revenues during the last three fiscal years. Accordingly, our operating margins have been significantly compressed. If we are unable to effectively grow our revenues or reduce our expenses, our business could be materially adversely affected.

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### ***If we cannot effectively identify, acquire and integrate additional schools, it could harm our business.***

We expect to continue to rely on acquisitions as a component of our growth strategy. We often engage in evaluations of, and discussions with, possible acquisition candidates. We cannot make assurances that we will be able to identify suitable acquisition candidates or that we will be able to acquire any of the acquisition candidates on favorable terms. Furthermore, we cannot make assurances that any acquired schools can be successfully integrated into our operations or be operated profitably. Acquisitions involve a number of risks that include:

diversion of management resources;

integration of the acquired schools' operations;

adverse short-term effects on reported operating results; and

possible loss of key employees.

Continued growth through acquisitions may also subject us to unanticipated business or regulatory uncertainties or liabilities. When we acquire an existing school, we typically allocate a significant portion of the purchase price to fixed assets, curriculum, goodwill and intangibles, such as covenants not-to-compete, trade names and accreditations. For our acquisitions through fiscal 2002, we amortized goodwill and trade names over a period of 40 years and curricula over 3 to 15 years. Effective July 1, 2002, we adopted SFAS No. 142, Accounting for Business Combinations, Goodwill and Other Intangible Assets, in its entirety. Under SFAS 142, goodwill is no longer amortized on a periodic basis, but instead is subject to an impairment test to be performed at least on an annual basis. Separable intangible assets that are not deemed to have indefinite lives will continue to be amortized over their useful lives. In addition, our acquisition of a school is a change of ownership of that school, which may result in the temporary suspension of that school's participation in federal student financial aid programs until it obtains the ED's approval. If we fail to successfully manage our acquisitions, our business would likely suffer.

### ***Failure to effectively manage opening new schools and adding new services could harm our business.***

Establishing new schools requires us to make investments in management, capital expenditures, marketing expenses and other resources. To open a new school, we are also required to obtain appropriate state and accrediting agency approvals. In addition, to be eligible for federal student financial aid programs, the new school is required to be certified as eligible to receive Title IV funds by the ED. We cannot assure you that we will be able to successfully open new schools in the future. Our failure to effectively manage the operations of newly established schools could have a material adverse effect on our business.

### ***Our success depends upon our ability to recruit and retain key personnel.***

We depend on key personnel, including Jack D. Massimino, Peter C. Waller, Kenneth S. Ord, Beth A. Wilson, William B. Buchanan, Mark L. Pelesh, Stan A. Mortensen and Robert C. Owen, to effectively operate our business. If any of these people left our Company and we failed to effectively manage a transition to new people, our business could suffer.

Our success also depends, in large part, upon our ability to attract and retain highly qualified faculty, school presidents and administrators and campus support center management. We may have difficulty locating and hiring qualified personnel, and retaining such personnel once hired. The loss of the services of any of our key personnel, or our failure to attract and retain other qualified and experienced personnel on acceptable terms, could cause our business to suffer.

### ***Anti-takeover provisions in our charter documents and Delaware law could make an acquisition of our company difficult.***

Our certificate of incorporation, our by-laws and Delaware law contain provisions that may delay, defer or inhibit a future acquisition of our Company not approved by our board of directors. These provisions are intended to encourage any person interested in acquiring us to negotiate with and obtain the approval of our Board of Directors. Our certificate of incorporation also permits our board of directors to issue shares of preferred stock with voting, conversion and other rights as it determines, without any further vote or action by our stockholders. By using preferred stock, we could:



discourage a proxy contest;

make the acquisition of a substantial block of our common stock more difficult; or

limit the price investors may be willing to pay in the future for shares of our common stock.

***We face litigation that could have a material adverse effect on our business, financial condition and results of operations.***

We and some of our current and former directors and executive officers have been named as defendants in private securities class action lawsuits. Between July 8, 2004 and August 31, 2004, several putative class action lawsuits were filed against us in the United States District Court for the Central District of California, alleging that we made certain material misrepresentations and failed to disclose certain material facts about our condition and prospects. Those cases have now been

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consolidated into one action. On April 24, 2006, the district court granted the Company's motion to dismiss the plaintiff's third complaint with prejudice. The plaintiff has appealed that ruling to the Ninth Circuit Court of Appeal. Although we believe this consolidated lawsuit is without merit, we cannot predict its outcome. Several of our current and former officers and directors have also been named as defendants in derivative actions in state and federal courts. Additionally, in the ordinary conduct of our business, we and our schools are subject to various other lawsuits, investigations and claims, covering a wide range of matters, including, but not limited to, claims involving our current and former students and routine employment matters. It is possible that we may be required to pay substantial damages or settlement costs in excess of our insurance coverage or current reserves, which could have a material adverse effect on our financial condition or results of operation. We could also incur substantial legal costs, and management's attention and resources could be diverted from our business. Please see Item 3, Legal Proceedings, for more detailed information on these litigation risks.

### ***Failure to keep pace with changing market needs and technology could harm our business.***

Prospective employers of our graduates increasingly demand that their entry-level employees possess appropriate technological skills. Educational programs at our schools, particularly programs in information technology, must keep pace with these evolving requirements. If we cannot respond to changes in industry requirements, it could have a material adverse effect on our business.

### ***Competitors with greater resources could harm our business.***

The post-secondary education market is highly competitive, and has become ever more so over the past several years. Our schools compete with traditional public and private two-year and four-year colleges and universities and other proprietary schools, including those that offer on-line learning programs. Some public and private colleges and universities, as well as other private career-oriented schools, may offer programs similar to those of our schools. Although tuition at many private non-profit institutions is higher than tuition at our schools, some public institutions are able to charge lower tuition than our schools, due in part to government subsidies, government and foundation grants, tax-deductible contributions and other financial sources not available to proprietary schools. Some of our competitors in both the public and private sectors have substantially greater financial and other resources than us.

### ***Failure to obtain additional capital in the future could reduce our ability to grow.***

We believe that funds from operations, cash, investments and access to our credit facility that expires in July 2010 will be adequate to fund our currently identified plans. However, we may need additional debt or equity financing in order to carry out our strategy of growth through acquisitions. The amount and timing of such additional financing will vary principally depending on the timing and size of acquisitions, our availability to access credit markets, and the sellers' willingness to provide financing themselves. To the extent that we require additional financing in the future and are unable to obtain such additional financing, we may not be able to fully implement our growth strategy.

### ***If natural disasters, terrorist attacks, public transit strikes or economic downturns occur in specific geographic areas where we have a high concentration of schools, our business could be harmed.***

We have large numbers of schools concentrated in certain geographic areas. For instance, we have a high concentration of schools in California, Florida, Texas, Georgia, Michigan, the Province of Ontario and other states and cities. We expect to continue to have high concentrations of schools in large metropolitan areas as we create new branch campuses and acquire new schools. These geographic concentrations may change or intensify over time. If natural disasters, terrorist attacks, public transit strikes, economic developments or other adverse events occur or are more intensively felt in some of these concentrated geographic areas, our business and results of operations could be disproportionately affected compared to the rest of the United States and Canada.

## **ITEM 1B. UNRESOLVED STAFF COMMENTS**

None.

## **ITEM 2. PROPERTIES**

Our campus support center office is located in Santa Ana, California and our 110 campuses, as of June 30, 2007, are located in 24 states and in the province of Ontario, Canada. Each campus provides our students with lecture halls, instructional labs, libraries, Internet access and other facilities.

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We actively monitor the capacity of our facilities and the expected future capacity of our facilities required to accommodate campus growth initiatives. From the beginning of fiscal 2003 through fiscal 2007, approximately 24% of the campuses have been relocated and an additional 88% of total campuses have been either expanded or remodeled. The following table reflects the number of campuses added, closed or combined, and the number of campuses that have been relocated, enlarged or remodeled in each of the last five fiscal years ended:

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|  | 2007 | 2006 | 2005 | 2004 | 2003 |
|--|------|------|------|------|------|
| Opened                                   |      |      |      |      |      |
| Acquired                                 | 0    | 0    | 1    | 72   | 4    |
| Branched                                 | 0    | 3    | 5    | 10   | 6    |
| Closed, combined, sold, or held for sale | 2    | 17   | 12   | 21   | 0    |
| Campuses at year end                     | 110  | 112  | 126  | 132  | 71   |
| Relocated                                | 2    | 6    | 10   | 5    | 3    |
| Enlarged or remodeled                    | 6    | 12   | 32   | 30   | 17   |

All but four of our facilities are leased. In addition, we lease our campus support center offices. Most of our leases have primary terms between 5 and 10 years with options to extend the lease, at our election.

Square footage of our schools and colleges varies significantly based upon the type of programs offered and the market being served. Please see the section entitled Programs of Study in Item 1, Business, for square footage by location.

**ITEM 3. LEGAL PROCEEDINGS**

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

On March 8, 2004, the Company was served with two virtually identical putative class action complaints entitled *Travis v. Rhodes Colleges, Inc., Corinthian Colleges, Inc., and Florida Metropolitan University*, and *Satz v. Rhodes Colleges, Inc., Corinthian Colleges, Inc., and Florida Metropolitan University*. Additionally, on April 15, 2005, the Company received another complaint entitled *Alan Alvarez, et al. v. Rhodes Colleges, Inc., Corinthian Colleges, Inc., and Florida Metropolitan University, Inc.* The *Alvarez* first amended and supplemental complaint named ninety-nine plaintiffs. Additionally, the court in the *Alvarez* case granted the plaintiffs' motion to add an additional seven plaintiffs to the first amended and supplemental complaint. The named plaintiffs in these lawsuits are current and former students in the Company's Florida Metropolitan University (FMU) campuses in Florida and online. The plaintiffs allege that FMU concealed the fact that it is not accredited by the Commission on Colleges of the Southern Association of Colleges and Schools and that FMU credits are not transferable to other institutions. The *Satz* and *Travis* plaintiffs seek recovery of compensatory damages and attorneys' fees under common law and Florida's Deceptive and Unfair Trade Practices Act for themselves and all similarly situated people. The *Alvarez* plaintiffs seek damages on behalf of themselves under common law and Florida's Deceptive and Unfair Trade Practices Act. The arbitrator in the *Satz* case found for the Company on all counts in an award on the Company's motion to dismiss. The arbitrator also found that *Satz* breached his agreement with FMU by filing in court rather than seeking arbitration and is therefore responsible to pay FMU's damages associated with compelling the action to arbitration. The arbitrator also declared FMU the prevailing party for purposes of the Deceptive and Unfair Trade Practices Act. The Company is continuing to pursue its remedies against *Satz* related to these findings. 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 *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 were consolidated into one action. A first consolidated amended complaint was filed in February 2005. The consolidated case is purportedly brought on behalf of all persons who acquired shares of the Company's common stock during a specified class period from August 27, 2003 through July 30, 2004. The consolidated complaint alleges that, in violation of Section 10(b) of the Securities Exchange Act of 1934 (the Act) and Rule 10b-5 promulgated thereunder by the Securities and Exchange Commission, the defendants made certain material misrepresentations and failed to disclose certain material facts about the condition of the Company's business and prospects during the putative class period, causing the plaintiffs to purchase the Company's common stock at artificially inflated prices. The plaintiffs further claim that Messrs. Moore, Beal, St. Pierre and Digiovanni are liable under Section 20(a) of the Act. The plaintiffs seek unspecified amounts in damages, interest, and costs, as well as other relief. On April 24, 2006,

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the Court granted the Company's motion to dismiss the plaintiff's third consolidated amended complaint with prejudice. The plaintiff has appealed the dismissal to the Federal Ninth Circuit Court of Appeals. The Company intends to continue vigorously defending itself and its current and former officers in this matter.

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

The Company has previously reported that it received document requests from the California Attorney General's Office (the "CAG") starting in June 2004. The CAG made supplemental information requests, and Company personnel and counsel met with representatives of the CAG on numerous occasions. On July 31, 2007, the company reached a settlement with the CAG by way of a court-approved, stipulated judgment. The settlement does not constitute a finding or evidence of wrongdoing, and the company specifically denied any wrongdoing as part of the agreement. The financial terms of the settlement totaled approximately \$6.5 million, which includes payments to the CAG for its discretionary use, administrative costs, future consumer education and protection, and debt forgiveness for former students. Additionally, the Company agreed to cease enrolling students in 11 programs in nine California campuses and to other injunctive relief. The Company does not expect its future obligations under the settlement to have a material adverse impact on its results of operation or financial condition.

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.

The Company has previously reported a lawsuit, subsequently compelled to arbitration, 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. The Company has resolved that matter through an immaterial settlement, a significant portion of which was paid by the Company's former insurance carrier.

The Company has previously reported a number of lawsuits, subsequently compelled to arbitration or stayed by trial courts pending the outcome of arbitrations, collectively referred to in prior filings as *Jaclyn Fisher, et al. v. Corinthian Colleges, Inc.* These lawsuits and arbitration proceedings ultimately included more than one hundred students from the Company's campuses in Tacoma, Renton and Lynwood, Washington. The Company has resolved these matters through an immaterial settlement, the majority of which was paid by the Company's former insurance carrier.

The Company has previously reported that Florida Metropolitan University, Inc. ("FMUI"), a wholly-owned subsidiary of the Company, had received two investigative records subpoenas from the Florida Attorney General's office (the "FL AG"), as well as additional information requests via correspondence. On August 21, 2007 the Company resolved the FL AG's investigation by entering into an assurance of voluntary compliance (the "AVC") with the FL AG's office. In entering into the AVC, the Company denied that it engaged in any conduct that violates any law or rule or that constitutes any unethical, tortious or otherwise inappropriate conduct. The AVC does not require the Company to materially modify its business practices, and the Company paid no fines, restitution or penalties as part of the settlement. The Company agreed to make an immaterial payment to the FL AG's office to resolve the inquiry, which the FL AG's office is free to use to offset its investigative costs and attorneys' fees, or for consumer education, consumer protection efforts, donations to charitable organizations, or other educational purposes.

In January 2006, the Company was served with a lawsuit captioned *Mercidita Garcia, et al. v. Corinthian Colleges, Inc.*, filed by fourteen current or former surgical technologist students from the Company's Parks College located in Thornton, Colorado. The counsel for the plaintiffs claimed to represent additional former surgical technologist students at this campus. The plaintiffs alleged negligent/intentional misrepresentations/omissions and violations of the state consumer protection act regarding alleged misrepresentations about the program. The complaint did seek certification as a class



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action. The Company removed this case to federal court and, on October 20, 2006, the court dismissed the complaint and compelled the plaintiffs to binding arbitration. In August 2007, approximately 30 former students filed claims in arbitration regarding the foregoing matters. The Company intends to vigorously defend itself in this matter.

The Company has previously reported that the Securities and Exchange Commission (the "SEC") commenced a review of the Company's historic stock option grants in August 2006. In July 2007, the Company received notice that the SEC staff had completed its inquiry and recommended no enforcement action at this time.

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

The Company is aware of several state attorneys general who have opened inquiries or investigations into arrangements between lenders and institutions of higher education with regard to alternative student loans i.e., loans not sponsored or guaranteed by any governmental agency. In this regard, the Company has received requests for information from the Attorney General of the State of Illinois regarding our relationships with student loan providers. The Company has also received a Civil Investigative Demand from the Arizona Attorney General's office requesting substantially equivalent information. The Company has been informed by the Arizona AG's office and the Illinois AG's office that both are conducting wide-ranging inquiries of student lending practices generally, and that the Company is not the sole recipient of this type of information request. The Company has responded to both information requests and intends to cooperate fully with both inquiries.

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 June 30, 2007, the Company had established aggregate reserves of approximately \$7.2 million 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.

**ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**

There were no matters submitted to a vote of security holders during the fourth quarter of the fiscal year ended June 30, 2007.

**Table of Contents****PART II****ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES****Dividend Policy**

We have never paid cash dividends on our common stock. Payment of dividends in the future, if at all, will depend upon our earnings and financial condition and various other factors our Board of Directors may deem appropriate at the time. Our amended credit agreement limits the payment of cash dividends.

**Issuer Purchases of Equity Securities**

On October 27, 2005, the Company's Board of Directors approved a share repurchase of up to \$70 million of the Company's common stock. From November 2005 through January 2006, the Company purchased 5,708,978 shares at a total cost of \$70.0 million (an average share price of \$12.26 per share). During the fourth quarter of fiscal 2006 the shares of treasury stock were retired.

On October 31, 2006, the Company's Board of Directors approved a share repurchase of up to \$50 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).

**Price Range of Common Stock**

Our common stock is listed on the Nasdaq National Market System under the symbol COCO. The approximate number of holders of record of our common stock as of August 23, 2007 was 36 and we believe the number of beneficial owners to be approximately 11,000. Our common stock was first listed on Nasdaq upon completion of our initial public offering in February 1999.

On August 23, 2007 the closing price per share of common stock was \$13.77 and the range of high and low closing sales prices of our common stock, as reported by the Nasdaq National Market System, for each applicable quarter in fiscal 2006 and 2007, and the first quarter to date of fiscal 2008, is as follows:

|                                       | <b>Price Range of</b> |            |
|---------------------------------------|-----------------------|------------|
|                                       | <b>Common Stock</b>   |            |
|                                       | <b>High</b>           | <b>Low</b> |
| <b>Fiscal Years Ended June 30:</b>    |                       |            |
| <b>2006:</b>                          |                       |            |
| First Quarter                         | \$ 13.93              | \$ 12.56   |
| Second Quarter                        | 13.57                 | 11.77      |
| Third Quarter                         | 14.58                 | 11.73      |
| Fourth Quarter                        | 15.00                 | 13.17      |
| <b>2007:</b>                          |                       |            |
| First Quarter                         | \$ 14.34              | \$ 10.81   |
| Second Quarter                        | 13.92                 | 11.29      |
| Third Quarter                         | 14.41                 | 13.00      |
| Fourth Quarter                        | 16.29                 | 13.60      |
| <b>2008:</b>                          |                       |            |
| First Quarter through August 23, 2007 | \$ 16.51              | \$ 12.99   |

**Securities Authorized for Issuance Under Equity Compensation Plans as of June 30, 2007.**

As of June 30, 2007, our equity compensation plans consisted of the 1998 Performance Award Plan (the 1998 Plan), the 2003 Performance Award Plan as amended (the 2003 Plan), the 2004 New Hire Plan (the New Hire Plan) and the Employee Stock Purchase Plan (the ESPP). The 1998 Plan, the 2003 Plan and the ESPP have all been approved by our shareholders.





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The New Hire Plan has not been approved by our shareholders. The Company's ability to issue new stock-based awards under the New-Hire Plan was terminated as of November 17, 2005.

| Plan Category  | Number of securities to<br>be issued upon exercise of<br>outstanding options,<br>warrants and rights | Weighted-average<br>exercise price<br>of<br>outstanding<br>options,<br>warrants,<br>and rights | Number of securities remaining   |
|--|--|--|--|
|  |  |  | available for future<br>issuance<br>under equity<br>compensation plans<br>(excluding<br>securities reflected<br>in column (a)) |
| Equity compensation plans approved by security holders     | 9,848,486(1)   | \$ 13.78(3)  | 7,934,505  |
| Equity compensation plans not approved by security holders | 105,300(2)   | \$ 15.99(3)  | 0  |
| <b>Total</b>   | <b>9,953,786</b>   | <b>\$ 13.81(3)</b>   | <b>7,934,505</b>   |

(1) Includes 390,526 shares to be issued upon the vesting of Restricted Stock Units ( RSUs ), for which no exercise price will be paid.

(2) Includes 11,400 shares to be issued upon the vesting of RSUs, for which no exercise price will be paid.

(3) For purposes of calculating weighted average exercise price, RSUs are assumed to have an exercise price of \$0.

**Performance Graph**

The following graph shows a comparison of cumulative total returns for Corinthian, the Russell 2000 Index and an index of peer companies selected by Corinthian during the period commencing on June 30, 2002 and ending on June 30, 2007. The comparison assumes \$100 was invested on June 30, 2002 in the Common Stock, the Russell 2000 Index and the peer companies selected by Corinthian and assumes the reinvestment of all dividends, if any. The companies in the peer group, all of which are education companies, are weighted according to their market capitalization. Included in the peer group are: Apollo Group Inc., Career Education Corporation, DeVry, Inc., Laureate Education, Inc., ITT Educational Services, Inc., Lincoln Educational Services Corporation, Universal Technical Institute, Inc. and Strayer Education, Inc. The performance graph takes into account the two-for-one stock split of the Company's common stock effected in the form of a stock dividend in March 2004.

**Table of Contents****ITEM 6. SELECTED FINANCIAL DATA**

The following selected financial data are qualified by reference to, and should be read in conjunction with, our consolidated financial statements and the related notes thereto appearing elsewhere in this Report on Form 10-K and Management's Discussion and Analysis of Financial Condition and Results of Operations. The selected statement of operations data and the balance sheet data set forth below as of and for each of the 5 years ended June 30, 2007, 2006, 2005, 2004 and 2003 are derived from our audited consolidated financial statements. These historical results are not necessarily indicative of the results that may be expected in the future.

|  | Years Ended June 30, |            |            |            |            |
|--|----------------------|------------|------------|------------|------------|
|  | 2007                 | 2006       | 2005       | 2004       | 2003       |
| (In thousands, except per share data)                        |                      |            |            |            |            |
| <b>Statement of Operations Data:</b>                         |                      |            |            |            |            |
| Net revenues (1)   | \$ 933,182           | \$ 926,081 | \$ 928,965 | \$ 775,178 | \$ 511,429 |
| <b>Operating expenses:</b>                                   |                      |            |            |            |            |
| Educational services   | 539,746              | 521,058    | 511,817    | 403,999    | 251,366    |
| General and administrative                                   | 110,654              | 92,677     | 85,327     | 64,199     | 49,770     |
| Marketing and admissions                                     | 252,333              | 245,390    | 220,357    | 172,981    | 106,478    |
| Impairment, facility closing, and severance charges          | 9,712                | 4,170      | 18,165     | 6,364      |            |
| Total operating expenses                                     | 912,445              | 863,295    | 835,666    | 647,543    | 407,614    |
| Income from operations                                       | 20,737               | 62,786     | 93,299     | 127,635    | 103,815    |
| Interest (income)  | (6,291)              | (5,805)    | (3,434)    | (1,362)    | (1,259)    |
| Interest expense, net  | 2,811                | 3,162      | 4,209      | 3,204      | 1,602      |
| Other (income) expense, net                                  | (1,038)              | (1,137)    | 160        | 203        | (13)       |
| Income before provision for income taxes                     | 25,255               | 66,566     | 92,364     | 125,590    | 103,485    |
| Provision for income taxes                                   | 9,347                | 24,046     | 34,539     | 49,125     | 41,096     |
| Income from continuing operations                            | 15,908               | 42,520     | 57,825     | 76,465     | 62,389     |
| (Loss) Income from discontinued operations, net of tax       | (8,676)              | (1,038)    | 598        | (769)      |            |
| Net income   | \$ 7,232             | \$ 41,482  | \$ 58,423  | \$ 75,696  | \$ 62,389  |
| <b>Income per common share – basic (2):</b>                  |                      |            |            |            |            |
| Income from continuing operations                            | \$ 0.18              | \$ 0.48    | \$ 0.63    | \$ 0.86    | \$ 0.72    |
| (Loss) income from discontinued operations                   | \$ (0.10)            | \$ (0.01)  | \$ 0.01    | \$ (0.01)  |            |
| <b>Income per common share – diluted (2):</b>                |                      |            |            |            |            |
| Income from continuing operations                            | \$ 0.18              | \$ 0.47    | \$ 0.62    | \$ 0.82    | \$ 0.68    |
| (Loss) income from discontinued operations                   | \$ (0.10)            | \$ (0.01)  | \$ 0.01    | \$ (0.01)  |            |
| <b>Weighted average number of common shares outstanding:</b> |                      |            |            |            |            |
| Basic  | 85,887               | 88,627     | 90,678     | 89,209     | 86,930     |
| Diluted  | 87,097               | 89,973     | 92,760     | 94,014     | 92,056     |



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|   | 2007                   | 2006        | Years Ended June 30, |             | 2003        |
|---|------------------------|-------------|----------------------|-------------|-------------|
|   |                        |             | 2005                 | 2004        |             |
|   | (Dollars In thousands) |             |                      |             |             |
| <b>Other Data:</b>  |                        |             |                      |             |             |
| Cash flow provided by (used in):                            |                        |             |                      |             |             |
| Operating activities  | \$ 38,804              | \$ 118,714  | \$ 127,925           | \$ 124,392  | \$ 82,846   |
| Investing activities  | (27,095)               | (51,588)    | (127,890)            | (173,948)   | (96,057)    |
| Financing activities  | 51,122                 | (89,829)    | 11,153               | 60,344      | 8,351       |
| Capital expenditures  | \$ (70,977)            | \$ (56,054) | \$ (76,556)          | \$ (74,600) | \$ (34,351) |
| Number of colleges/training centers at end of period        | 110                    | 112         | 126                  | 132         | 71          |
| Student population at end of period                         | 62,116                 | 60,964      | 62,783               | 61,607      | 43,229      |
| Starts during the period (3)                                | 89,969                 | 88,430      | 91,748               | 84,565      | 56,787      |
| <b>Balance Sheet Data:</b>                                  |                        |             |                      |             |             |
| Cash and cash equivalents                                   | \$ 99,789              | \$ 36,805   | \$ 57,863            | \$ 46,709   | \$ 35,911   |
| Marketable securities                                       | 15,000                 | 55,900      | 41,375               |             | 3,897       |
| Working capital   | 123,640                | 63,832      | 97,958               | 48,538      | 31,131      |
| Total assets  | 733,935                | 670,006     | 674,572              | 561,462     | 333,084     |
| Long-term debt, net of current portion                      | 112,913                | 31,402      | 54,243               | 46,366      | 1,384       |
| Long-term capital lease obligations, net of current portion | 15,141                 | 14,151      | 12,198               | 12,406      | 12,586      |
| Total stockholders equity                                   | \$ 385,422             | \$ 399,528  | \$ 410,825           | \$ 341,104  | \$ 223,433  |

- (1) Represents student tuition and fees and bookstore sales, net of refunds.
- (2) All share and per share amounts have been restated to reflect a two-for-one stock split effected in the form of a stock dividend in March 2004.
- (3) Represents the new students starting school during the periods presented.

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### **ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

The following discussion and analysis should be read in conjunction with the Selected Financial Data and the Company's Consolidated Financial Statements and Notes thereto appearing elsewhere in this Report on Form 10-K.

#### **Background and Overview**

As of June 30, 2007, we operated 110 colleges, with more than 62,115 students, in 24 states and the province of Ontario, Canada. During the fiscal year ended June 30, 2007, the Company had net revenues of \$933.2 million. Our revenues consist principally of student tuition and fees and are presented as net revenues after adjustments for refunds related to students who do not complete their courses. We recognize revenues pro-rata (on a straight-line basis) over the relevant period attended by the student of the applicable course or program.

Net revenues from continuing operations increased 0.8% to \$933.2 million in 2007 from \$926.1 million in 2006. The increase is primarily due to a 2.3% increase in the average revenue rate per student partially offset by a 1.5% decrease in the average student population during the period. The student population varies depending on, among other factors, the number of (i) continuing students at the beginning of a fiscal period, (ii) new student enrollments during the fiscal period, (iii) students who have previously withdrawn but who reenter during the fiscal period, and (iv) graduations and withdrawals during the fiscal period. New student starts typically occur several times per month in the diploma-granting colleges. In the degree-granting colleges, the majority of new student starts occur in the first month of each calendar quarter with an additional mini-start in the second month of each quarter in most colleges. The tuition charges vary by college depending on the local market, the program level (diploma, associate's, bachelor's or master's degree) and the specific curriculum.

The majority of students at our colleges rely on funds received under various government-sponsored student financial aid programs to pay a substantial portion of their tuition and other education-related expenses. In fiscal 2007, approximately 75.3% of our net revenues, on a cash basis, were derived from federal student financial aid programs.

#### **Critical Accounting Estimates**

Our discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts on those financial statements. Note 1 to the consolidated financial statements in the Annual Report on Form 10-K for the fiscal year ended June 30, 2007 describes the significant accounting policies and methods used in the preparation of the consolidated financial statements. On an on-going basis, we evaluate our estimates, including, but not limited to, those related to our allowance for doubtful accounts, insurance/self-insurance, goodwill and intangible assets, deferred taxes, contingencies and stock-based compensation. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different conditions or if our assumptions change.

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

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

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

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

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

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

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

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

Indefinite-lived intangible assets are tested annually or more frequently if circumstances indicate potential impairment, by comparing their fair values to their carrying amounts. To the extent the fair value of an intangible asset is less than its carrying amount, we record an impairment charge in the consolidated

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statements of operations. For instance, if we were to discontinue the use of a trade name or lose accreditation at one or more of our acquired schools to which we have ascribed value for trade names and accreditation, we would test the amounts we have allocated to such assets for impairment. Such testing would include estimating the future cash flows expected to be received from the trade names and accreditation and comparing them to their carrying values. If our estimate of the present value of these future cash flows were below the carrying values of the related assets, we would consider the assets to be impaired and take a charge against the amounts we had allocated to trade names and accreditation.

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

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

We believe that the schools and campuses within the Sale Group meet the criteria necessary for such entities to qualify as assets held for sale under the specific provision of SFAS 144. Accordingly, the results of operations of the schools and 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 schools and campuses within the Sale Group are reflected as current assets held for sale and current liabilities held for sale on our consolidated balance sheet as of 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 schools and 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). The charge is reflected as a component of loss from discontinued operations on our consolidated statement of operations for the year ended June 30, 2007.

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

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

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



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### **Acquisitions/Dispositions**

Since our inception, we have completed the following acquisitions, each of which was accounted for using the purchase method of accounting, and the results of their operations are included in our consolidated results of operations since their respective dates of acquisition:

On June 30, 1995, we acquired five colleges from National Education Corporation. As part of the same transaction, we subsequently acquired from National Education Corporation a second group of five colleges on September 30, 1995 and an additional six colleges on December 31, 1995. The adjusted purchase price for all 16 colleges was approximately \$4.7 million in cash.

From July 1, 1996 through October 17, 1996, we acquired a total of 20 colleges in 3 separate transactions for a purchase price of \$24.2 million in cash.

On January 18, 2000, we acquired substantially all of the assets of Harbor Medical College, which operated one college in Torrance, California, for approximately \$300,000 in cash.

On April 1, 2000, we acquired substantially all of the assets of the Georgia Medical Institute, which operated three colleges in the greater Atlanta, Georgia metropolitan area, for approximately \$7.0 million in cash.

On June 1, 2000, we acquired substantially all of the assets of Academy of Business College, Inc. which operated one college in Phoenix, Arizona, for approximately \$1.0 million in cash.

On October 23, 2000, we acquired substantially all of the assets of Educorp, Inc. which operated four colleges in California, for approximately \$12.6 million in cash.

On November 1, 2000, we acquired substantially all of the assets of Computer Training Academy, Inc. which operated two colleges in northern California, for approximately \$6.1 million in cash. We closed one campus in April 2002 and combined the second campus with another campus in close proximity in June 2004.

On February 1, 2001, we acquired all of the outstanding stock of Grand Rapids Educational Center, Inc., which operated three campuses in Michigan and Illinois, for approximately \$2.8 million in cash.

On April 1, 2002, we acquired all of the outstanding stock of National School of Technology, Inc., which operated three campuses in the greater Miami, Florida area, for approximately \$14.4 million in cash.

On July 1, 2002, we acquired all of the outstanding stock of WyoTech Acquisition Corporation, which operated two colleges in Laramie, Wyoming and Blairsville, Pennsylvania. The cash purchase price was \$84.4 million and was funded through cash on hand and approximately \$43 million provided from our credit facility.

On January 2, 2003, we acquired substantially all of the assets of Learning Tree University, Inc. and LTU Extension, Inc., which operated two training centers in southern California, for approximately \$5.3 million in cash of which \$2.0 million was deferred subject to achieving certain operating performance criteria. We closed the two LTU training centers in May 2004.

On August 1, 2003, we acquired all of the outstanding stock of Career Choices, Inc., which operated 10 campuses in California, Washington and Oregon, for approximately \$56.3 million, financed through a combination of available cash and borrowings from our credit facility. We combined one of the campuses in Washington with other campuses in close proximity in June 2004.

On August 6, 2003, we acquired substantially all of the assets of East Coast Aero Tech, LLC, which operated one campus in Massachusetts, for approximately \$3.2 million plus or minus certain balance sheet adjustments, financed through a combination of available cash and borrowings from our credit facility.

On August 19, 2003, we acquired approximately 89% of the outstanding shares of common stock of CDI Education Corporation ( CDI ) through a tender offer to acquire all of the outstanding shares of common stock. As of October 7, 2003, we had acquired all shares of CDI for approximately \$42.1 million and the assumption of approximately \$10 million of debt and other liabilities. We funded the acquisition with available cash and borrowings from our credit facility. CDI operated 45 post-secondary colleges and 15 corporate training centers throughout Canada. In October 2003, we completed the acquisition of CMA Careers, Inc. located in Kitchener, Ontario, Canada. The intent to acquire this

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campus by CDI had been agreed to prior to our acquisition of CDI. We combined one of the CDI campuses with another campus in close proximity in April 2004 and closed 11 campuses and one training center in

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fiscal 2005. During fiscal 2006 we completed the sale of substantially all the assets of CDI's corporate training division, CDI Education, whereby we sold the remaining training centers. The Company recognized a gain of approximately \$1.4 million (pre-tax) which is included within other (income) expense on the Consolidated Statement of Operations.

On August 4, 2004, we acquired substantially all of the assets of A.M.I., Inc. (AMI) for approximately \$11 million, plus the assumption of certain liabilities of approximately \$0.5 million. We funded the acquisition with available cash. AMI operates one campus in Daytona Beach, Florida that offers accredited diploma programs to prepare students for jobs as motorcycle, marine, and personal watercraft technicians. AMI's motorcycle technician and dealership management programs prepare students for positions with dealerships such as BMW, Harley-Davidson, Ducati, Honda, Kawasaki, Suzuki, Triumph, and Yamaha.

## **Results of Operations**

Comparisons of results of operations between the fiscal year ended June 30, 2007 and the fiscal years ended June 30, 2006 and 2005 are complicated by the opening of 3 branch campuses in fiscal 2006, and the opening of 5 branch campuses and the acquisition of 1 campus in fiscal 2005. The Company slowed the roll-out of new branch campuses during fiscal 2007, 2006 and 2005, and became very selective in its acquisition criteria, in order to focus on achieving better utilization of the significant new capacity it obtained in fiscal 2004.

During November 2005, the company completed the sale of substantially all the assets of its corporate training division, CDI Education which provided technology (IT) and business skills training at 14 locations throughout Canada and had revenues of approximately Cdn\$37 million (30 million USD) in fiscal year end June 30, 2005. In July 2004, the Company announced that it would streamline its CDI post-secondary schools by beginning the teach-out of 10 campuses in Canada. As part of the teach-out process, the Company immediately ceased new student enrollments in the ten affected campuses, but continued to incur instructional costs through the remainder of fiscal 2005 in order to train its then-matriculated students. The teach-outs resulted in the closure of all ten campuses by the end of fiscal 2005.

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 and campuses 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 and schools in fiscal 2008. We expect to have no significant continuing involvement with the schools after they have been sold.

We believe that the schools and campuses within the Sale Group meet the criteria necessary for such entities to qualify as assets held for sale under the specific provision of SFAS 144. Accordingly, the results of operations of the schools and 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 schools and campuses within the Sale Group are reflected as current assets held for sale and current liabilities held for sale on our consolidated balance sheet as of 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 schools and 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). The charge is reflected as a component of loss from discontinued operations on our consolidated statement of operations for the year ended June 30, 2007.

We categorize our expenses as educational services, general and administrative, and marketing and admissions. Educational services expenses primarily consist of those costs incurred to deliver and administer the education programs at the colleges, including faculty and college administration compensation; college facility rent and other occupancy costs; bad debt expense; education materials and supplies; bookstore and classroom expenses; depreciation and amortization of college property and equipment; default management expenses and financial aid processing costs.

General and administrative expenses consist principally of those costs incurred at the campus support center and regional level in support of college operations, except for marketing and admissions related costs. Included in general and administrative expenses are costs relating to executive management, campus support center staff and regional operations management compensation; depreciation and amortization of corporate property and equipment and certain intangibles; rent and other occupancy costs for campus support center; and other expenses incurred at campus support center. Additionally, all bonus and other incentive compensation expenses are included in general and administrative expenses.

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Marketing and admissions expenses include compensation for college admissions staff, regional admissions personnel, compensation expenses for marketing management, and all direct marketing and production costs.

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

| Statement of Operations Data:                                       | Years Ended June 30, |        |        |
|---|----------------------|--------|--------|
|   | 2007                 | 2006   | 2005   |
| Net revenues  | 100.0%               | 100.0% | 100.0% |
| <b>Operating expenses:</b>  |                      |        |        |
| Educational services  | 57.8                 | 56.3   | 55.1   |
| General and administrative  | 11.9                 | 10.0   | 9.2    |
| Marketing and advertising   | 27.1                 | 26.4   | 23.7   |
| Impairment, facility closing, and severance charges                 | 1.0                  | 0.5    | 2.0    |
| Total operating expenses  | 97.8                 | 93.2   | 90.0   |
| Income from operations  | 2.2                  | 6.8    | 10.0   |
| Interest (income)   | (0.7)                | (0.6)  | (0.4)  |
| Interest expense, net   | 0.3                  | 0.3    | 0.5    |
| Other (income) expense, net   | (0.1)                | (0.1)  |        |
| Income from continuing operations before provision for income taxes | 2.7                  | 7.2    | 9.9    |
| Provision for income taxes  | 1.0                  | 2.6    | 3.7    |
| Income from continuing operations                                   | 1.7                  | 4.6    | 6.2    |
| (Loss) income from discontinued operations, net of tax              | (0.9)                | (0.1)  | 0.1    |
| Net income  | 0.8%                 | 4.5%   | 6.3%   |

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*Net Revenues.* Net revenues increased \$7.1 million, or 0.8%, from \$926.1 million in fiscal 2006 to \$933.2 million. The increase is primarily due to a 2.3% increase in the average revenue rate per student partially offset by a 1.5% decrease in the average student population during the period. At June 30, 2007, student population related to continuing operations was 62,116, compared with 60,964 at June 30, 2006. Total student starts related to continuing operations increased 1.7% to 89,969 for the year ended June 30, 2007 when compared to the prior year. As of June 30, 2007, we operated 110 colleges compared to 112 colleges as of June 30, 2006.

*Educational Services.* Educational services expenses include direct operating expenses of the schools consisting primarily of payroll and payroll related expenses, rents, occupancy, supplies expenses, bad debt expense and other educational related expenses. Educational services expenses increased \$18.6 million, or 3.6%, from \$521.1 million in fiscal 2006 to \$539.7 million in fiscal 2007. As a percentage of net revenues, educational services expenses increased from 56.3% of revenues in fiscal 2006 to 57.8% of revenues in fiscal 2007. The increase, as a percent of revenues, was due primarily to an increase in facility and bad debt expenses. As of June 30, 2007, we had approximately 81 square feet of school space per student as compared to 76 square feet of school space per student as of June 30, 2006. As the costs of operating our facilities are largely fixed in nature, this lower level of capacity utilization negatively affects educational services expenses as a percent of revenues. Bad debt expense in fiscal 2007 amounted to \$53.8 million and 5.8% of net revenues, compared to \$47.9 million or 5.2% of net revenues in fiscal 2006. Additionally, during fiscal 2007, 72 new programs were adopted into existing schools, including 58 program adoptions into our campuses in the U.S. and 14 program adoptions into our campuses in Canada. During fiscal 2006, we adopted 52 programs into existing schools.

*General and Administrative.* General and administrative expenses include incentive bonuses and corporate payroll related expenses, campus support center office rents and occupancy expenses, professional fees and other support related expenses. General and administrative expenses increased \$18.0 million, or 19.4%, from \$92.7 million in fiscal 2006 to \$110.7 million in fiscal 2007. As a percentage of net revenues, general and administrative expenses increased from 10.0% of net revenues in fiscal 2006 to 11.9% of net revenues in fiscal 2007. The increase as a percent of revenues was primarily the result of increases in litigation reserves of approximately \$6.5 million, primarily related to the California Attorney General's investigation, outside professional service fees of approximately \$5.7 million related to the review of historic stock option grants by the Special Committee of the Board of Directors, and travel-related costs associated with training and implementation of a new admissions process.

*Marketing and Admissions.* Marketing and admissions expenses consist primarily of payroll and payroll related expenses, direct-response and other advertising expenses, promotional materials and other related marketing costs. Marketing and admissions expenses increased \$6.9 million, or 2.8%, from \$245.4 million in fiscal 2006 to \$252.3 million in fiscal 2007. As a percentage of net revenues, marketing and admissions expenses increased from 26.4% of net revenues in fiscal 2006 to 27.1% of net revenues in fiscal 2007. The increase is primarily attributable to an increase in advertising and personnel costs. The cost per start increased \$30, or 1.1%, from \$2,775 in fiscal 2006 to \$2,805 in fiscal 2007.

*Impairment, Facility Closing and Severance Charges.* During fiscal 2007 the decision was made to consolidate additional brands as the Company continues to establish the national Everest brand. As a result of the 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 \$4.8 million, which primarily consists of the trade name value impacted by the name change. The company also recorded lease termination costs \$1.4 related to student housing, a facility closing charge of \$0.6, million related to the campus in Victoria, British Columbia, and approximately \$2.9 million related to severance expense, partially associated with the retirement of David Moore as Chairman of the Board of Directors and as an employee of the Company.

*Provision for Income Taxes.* The effective income tax rate was 37.0% of income before income taxes in fiscal 2007 compared to 36.1% of income before income taxes in fiscal 2006. The increase in the effective tax rate is primarily due to a \$1.3 million favorable settlement with the IRS during the prior year.

**Year Ended June 30, 2006 Compared to Year Ended June 30, 2005**

*Net Revenues.* Net revenues decreased \$2.9 million, or 0.3%, from \$929.0 million in fiscal 2005 to \$926.1 million in fiscal 2006. During October 2005, we completed the sale of our corporate training division, CDI Education. Excluding our corporate training division, revenues for fiscal 2006 increased \$19.1 million, or 2.1% compared to fiscal 2005. The increase is primarily due to a 7.0% increase in the average revenue rate per student partially offset by a 4.7% decrease in the average student population during the period. At June 30, 2006, student population related to continuing operations was 60,964, compared with 62,783 at June 30, 2005. Total student starts related to continuing operations decreased 3.6% to 88,430 for the year ended June 30, 2006 when compared to the prior year. As of June 30, 2006, we operated 112 colleges compared to 112 colleges and 14 training centers as of June 30, 2005.

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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, supplies expenses, bad debt expense and other educational related expenses. Educational services expenses increased \$9.3 million, or 1.8%, from \$511.8 million in fiscal 2005 to \$521.1 million in fiscal 2006. Excluding our corporate training division, educational expenses from fiscal 2006 increased \$25.1 million, or 5.1% compared to fiscal 2005. As a percentage of net revenues, educational services expenses increased from 55.1% of

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revenues in fiscal 2005 to 56.3% of revenues in fiscal 2006. The increase, as a percent of revenues, was due primarily to higher rent and occupancy costs and depreciation. The increase in rent and occupancy and depreciation costs as a percentage of revenues was a result of a lower level of utilization of our facilities in fiscal 2006 as compared to fiscal 2005. As of June 30, 2006, we had approximately 76 square feet of school space per student as compared to 68 square feet of school space per student as of June 30, 2005. As the costs of operating our facilities are largely fixed in nature, this lower level of capacity utilization negatively affects educational services expenses as a percent of revenues. Bad debt expense in fiscal 2006 amounted to \$47.9 million and 5.2% of net revenues, compared to \$46.0 million or 5.0% of net revenues in fiscal 2005. Additionally, during fiscal 2006, 52 new programs were adopted into existing schools, including 37 program adoptions into our campuses in the U.S. and 15 program adoptions into our campuses in Canada. During fiscal 2005, we adopted 103 programs into existing schools.

*General and Administrative.* General and administrative expenses include incentive bonuses and corporate payroll related expenses, campus support center office rents and occupancy expenses, professional fees and other support related expenses. General and administrative expenses increased \$7.4 million, or 8.7%, from \$85.3 million in fiscal 2005 to \$92.7 million in fiscal 2006. Excluding our corporate training division, general and administrative expenses from fiscal 2006 increased \$8.7 million, or 10.4% compared to fiscal 2005. As a percentage of net revenues, general and administrative expenses increased from 9.2% of net revenues in fiscal 2005 to 10.0% of net revenues in fiscal 2006. The increase as a percent of revenues was due primarily to stock based compensation recorded pursuant to FAS 123(R).

*Marketing and Admissions.* Marketing and admissions expenses consist primarily of payroll and payroll related expenses, direct-response and other advertising expenses, promotional materials and other related marketing costs. Marketing and admissions expenses increased \$25.0 million, or 11.3%, from \$220.4 million in fiscal 2005 to \$245.4 million in fiscal 2006. Excluding our corporate training division, marketing and administrative expenses from fiscal 2006 increased \$26.9 million, or 12.4% compared to fiscal 2005. As a percentage of net revenues, marketing and admissions expenses increased from 23.7% of net revenues in fiscal 2005 to 26.4% of net revenues in fiscal 2006 primarily due to increased advertising, professional fees, and compensation. The cost per start increased \$373, or 15.5%, from \$2,402 in fiscal 2005 to \$2,775 in fiscal 2006.

*Impairment, Facility Closing and Severance Charges* During the fourth quarter of 2006 we made the decision to consolidate multiple brands. As a result of this decision, we reviewed the related intangible asset of trade names for possible impairment in accordance with SFAS 142. Based on the results of the review, we recognized an impairment charge of \$2.3 million. We also recorded a facility closing charge of \$1.0 million as a result of relocating our Rancho Cucamonga, CA campus in the fourth quarter of 2006. Additionally, we recorded a severance charge of \$0.9 million.

*Provision for Income Taxes.* The effective income tax rate was 36.1% of income before income taxes in fiscal 2006 compared to 37.4% of income before income taxes in fiscal 2005. The reduction in the effective rate is primarily due to a \$1.3 million favorable settlement with the IRS.

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

Our 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 student populations 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. Such patterns may change, however, as a result of acquisitions, new branch openings, new program adoptions and increased enrollments from recent high school graduates. The operating results for any quarter are not necessarily indicative of the results for any future period. See the footnote entitled "Quarterly Financial Summary (Unaudited)" of the Consolidated Financial Statements included elsewhere herein.

### **Liquidity and Capital Resources**

On August 10, 2007, we executed Amendment No. 1 to our Second Amended and Restated Credit Facility dated June 8, 2005. The amendment, which was effective as of June 30, 2007, adjusted the maintenance level for the fixed charge coverage ratio. All other terms of the facility remained unchanged including the aggregate borrowing capacity of \$235 million, of which \$175 million is a domestic facility and \$60 million is a Canadian facility. The Second Amended and Restated Credit Agreement expires in 2010. The Second Amended and Restated Credit Agreement has been established to provide available

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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 ED financial responsibility composite score ratio. As of June 30, 2007, after giving effect to amendment no. 1 to the credit facility, we were in compliance with all of the covenants. As of June 30, 2007, the credit facility had borrowings outstanding of \$112.9 million and approximately \$11.2 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 \$123.6 million as of June 30, 2007 and \$63.8 million as of June 30, 2006 and the current ratio was 1.8:1 in fiscal 2007 and 1.4:1 in fiscal 2006. Average daily borrowings outstanding amounted to approximately \$31.4 million in fiscal 2007, \$41.7 million in fiscal 2006 and \$46.4 million in fiscal 2005. The increase in working capital compared to June 30, 2007 is primarily due to additional cash borrowed for purposes of calculating our composite score.

Cash flows provided by operating activities amounted to \$38.8 million in fiscal 2007 compared to \$118.7 million in fiscal 2006 and \$127.9 million in fiscal 2005. The decrease in cash provided by operating activities in fiscal 2007 compared to fiscal 2006, was primarily due to decreased earnings, an increase in accounts receivable primarily due to the reimbursement status of our Atlanta campuses, and an increase in cash taxes paid. Included in cash flows from operating activities is (\$1.0) million, (\$0.01) million, and \$3.3 million of net cash (used in) provided by operating activities related to discontinued operations for fiscal 2007, fiscal 2006, and fiscal 2005, respectively.

Cash flows used in investing activities amounted to \$27.1 million in fiscal 2007, \$51.6 million in fiscal 2006 and \$127.9 million in fiscal 2005. During fiscal 2006, we received \$17.2 million related to the sale of our corporate training division. During fiscal 2005, we acquired substantially all of the assets of AMI. The cash purchase price of this acquisition was approximately \$11 million, plus the assumption of certain liabilities of approximately \$0.5 million. We funded the acquisition with available cash.

Capital expenditures amounted to \$71.0 million in fiscal 2007, \$56.1 million in fiscal 2006 and \$76.6 million in fiscal 2005. Capital expenditures were incurred to open 3 new branch campuses in fiscal 2006 and 5 new branch campuses in fiscal 2005. Capital expenditures were also incurred to relocate, remodel and enlarge campuses. During fiscal 2007, we incurred capital expenditures to relocate 2 campuses and to enlarge or remodel 6 campuses and during fiscal 2006, we incurred capital expenditures to relocate 6 campuses and to enlarge or remodel 12 campuses. Capital expenditures of approximately \$17.9 million, \$9.3 million and \$7.8 million were incurred to purchase and to integrate software in fiscal 2007, fiscal 2006 and fiscal 2005, respectively. Included in cash flows from investing activities are capital expenditures of \$0.9 million, \$1.7 million, and \$4.0 million related to discontinued operations for fiscal 2007, fiscal 2006, and fiscal 2005, respectively.

During fiscal 2007 investments in marketable securities decreased \$40.9 million. During fiscal 2006 and 2005, investments in marketable securities increased \$14.5 million and \$41.4 million, respectively.

Cash flows provided by financing activities amounted to \$51.1 million in fiscal 2007. Cash flows used in financing activities amounted to \$89.8 million in fiscal 2006. Cash flows provided by financing activities amounted to \$11.2 million in fiscal 2005. During fiscal 2007, cash provided by financing activities consisted of proceeds from borrowings of \$80.0 million and proceeds from the exercise of stock options of \$4.0 million, partially offset by the purchase of treasury stock of \$31.4 million and payments on long-term debt and capital lease obligations of \$1.5 million. During fiscal 2006, cash used in financing activities primarily consisted of the purchase and retirement of treasury stock of \$70.0 million and principal repayments of long-term debt and capital lease obligations of \$27.3 million, partially offset by proceeds from the exercise of stock options and the Employee Stock Purchase Plan of \$7.5 million. During fiscal 2005, cash provided by financing activities consisted of proceeds from borrowings of \$9.5 million and proceeds from the exercise of stock options of \$8.2 million partially offset by payments on long-term debt and capital lease obligations of \$6.5 million.

We believe that our working capital, cash flow from operations, access to operating leases and borrowings available from our amended credit agreement will provide us with adequate resources for our ongoing operations through fiscal 2007 and our currently identified and planned capital expenditures.



**Table of Contents****Off-Balance Sheet Arrangements and Contractual Obligations**

As of June 30, 2007, future minimum cash payments due under contractual obligations, including our credit agreement, mortgages, and non-cancelable operating and capital lease agreements, are as follows:

|                                | Total      | Payments due by period (in thousands) |            |            |                         |
|--------------------------------|------------|---------------------------------------|------------|------------|-------------------------|
|                                |            | Less than<br>1 year                   | 1-3 years  | 4-5 years  | More<br>than<br>5 years |
| <b>Contractual Obligations</b> |            |                                       |            |            |                         |
| Long-Term Debt (1)             | \$ 112,913 | \$                                    | \$         | \$ 112,913 | \$                      |
| Capital Lease Obligations      | 31,043     | 1,993                                 | 3,992      | 4,037      | 21,021                  |
| Operating Lease Obligations    | 540,711    | 80,815                                | 138,038    | 112,838    | 209,020                 |
| Total                          | \$ 684,667 | \$ 82,808                             | \$ 142,030 | \$ 229,788 | \$ 230,041              |

(1) Long-term debt consists of a revolving credit facility. The related obligation of \$112.9 million does not reflect interest amounts due under the credit facility. See Note 6 for additional information related to the Company's credit facility.

The United States ED requires that Title IV Program funds collected in advance of student billings be kept in a separate cash or cash equivalent account until the students are billed for the program portion related to those funds. In addition, all Title IV Program funds received by our schools through electronic funds transfer are subject to certain holding period restrictions. These funds are also deposited into a separate account until the restrictions are satisfied. As of June 30, 2007, we held nominal amounts of such funds in separate accounts. The restrictions on any cash held have not significantly affected our ability to fund daily operations.

**ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES 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 June 30, 2007, our only assets or liabilities subject to risks from interest rate changes are (i) debt under the credit facility in the aggregate amount of \$112.9 million and capital lease obligations of \$15.5 million, and (ii) student notes receivable, net, in the aggregate amount of \$9.9 million. Our capital lease obligations and student notes receivable are all at fixed interest rates. We do not believe we are subject to material risks from reasonably possible near-term changes in market interest rates.

*Foreign Currency Exposure.* A portion of our operations consists of an investment in a foreign subsidiary whose functional currency is the Canadian dollar. Our investment in our foreign operations as of June 30, 2007 was approximately CAD \$50.1 million and we had borrowings outstanding under the credit facility of approximately CAD \$35 million. As a result, the consolidated financial results have been and could continue to be affected by changes in foreign currency exchange rates.

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**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

The following financial statements and schedule of the company and its subsidiaries are included below on pages 58-96 and page 106 of this report:

|   | <b>10K</b>         |
|---|--------------------|
|   | <b>Report Page</b> |
| <u>Report of Independent Registered Public Accounting Firm on Internal Control over Financial Reporting</u> | 48                 |
| <u>Report of Independent Registered Public Accounting Firm</u>  | 49                 |
| <u>Consolidated Balance Sheets as of June 30, 2007 and 2006</u>   | 50                 |
| <u>Consolidated Statements of Operations for the years ended June 30, 2007, 2006 and 2005</u>               | 51                 |
| <u>Consolidated Statements of Stockholders' Equity for the years ended June 30, 2007, 2006 and 2005</u>     | 52                 |
| <u>Consolidated Statements of Cash Flows for the years ended June 30, 2007, 2006 and 2005</u>               | 53                 |
| <u>Notes to Consolidated Financial Statements</u>   | 54                 |

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM  
ON INTERNAL CONTROL OVER FINANCIAL REPORTING**

The Board of Directors and Stockholders of  
Corinthian Colleges, Inc. and subsidiaries

We have audited management's assessment, included in the accompanying Management's Report on Internal Control Over Financial Reporting, that Corinthian Colleges, Inc. and subsidiaries (the Company) maintained effective internal control over financial reporting as of June 30, 2007, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Corinthian Colleges, Inc.'s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assessment that Corinthian Colleges, Inc. maintained effective internal control over financial reporting as of June 30, 2007, is fairly stated, in all material respects, based on the COSO criteria. Also, in our opinion, Corinthian Colleges, Inc. maintained, in all material respects, effective internal control over financial reporting as of June 30, 2007, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Corinthian Colleges, Inc. and subsidiaries as of June 30, 2007 and 2006, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended June 30, 2007 of Corinthian Colleges, Inc. and subsidiaries and our report dated August 23, 2007 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Orange County, California

August 23, 2007

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The Board of Directors and Stockholders of

Corinthian Colleges, Inc. and subsidiaries

We have audited the accompanying consolidated balance sheets of Corinthian Colleges, Inc. and subsidiaries (the Company) as of June 30, 2007 and 2006, and the related consolidated statements of operations, stockholders' equity and cash flows for each of the three years in the period ended June 30, 2007. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Corinthian Colleges, Inc. and subsidiaries at June 30, 2007 and 2006, and the consolidated results of their operations and their cash flows for each of the three years in the period ended June 30, 2007, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Corinthian Colleges, Inc.'s internal control over financial reporting as of June 30, 2007, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated August 23, 2007 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Orange County, California

August 23, 2007

**Table of Contents****CORINTHIAN COLLEGES, INC. AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS**

(In thousands)

|   | As of June 30,    |                   |
|---|-------------------|-------------------|
|   | 2007              | 2006              |
| <b>ASSETS</b>   |                   |                   |
| <b>CURRENT ASSETS:</b>  |                   |                   |
| Cash and cash equivalents   | \$ 99,789         | \$ 36,795         |
| Restricted cash   |                   | 10                |
| Marketable securities   | 15,000            | 55,900            |
| Accounts receivable, net of allowance for doubtful accounts of \$24,142 and \$18,085 at June 30, 2007 and 2006, respectively                                    | 75,289            | 53,530            |
| Student notes receivable, net of allowance for doubtful accounts of \$953 and \$583 at June 30, 2007 and 2006, respectively                                     | 3,785             | 2,463             |
| Deferred income taxes   | 25,756            | 20,943            |
| Prepaid expenses and other current assets   | 44,620            | 42,771            |
| Assets held for sale  | 10,640            | 2,590             |
| <b>Total current assets</b>   | <b>274,879</b>    | <b>215,002</b>    |
| PROPERTY AND EQUIPMENT, net   | 216,626           | 193,621           |
| <b>OTHER ASSETS:</b>  |                   |                   |
| Goodwill, net   | 189,954           | 191,466           |
| Other intangibles, net  | 41,583            | 47,276            |
| Student notes receivable, net of allowance for doubtful accounts of \$2,497 and \$1,660 at June 30, 2007 and 2006, respectively                                 | 6,140             | 3,385             |
| Deposits and other assets   | 4,753             | 5,133             |
| Assets held for sale  |                   | 14,123            |
| <b>TOTAL ASSETS</b>   | <b>\$ 733,935</b> | <b>\$ 670,006</b> |
| <b>LIABILITIES AND STOCKHOLDERS EQUITY</b>  |                   |                   |
| <b>CURRENT LIABILITIES:</b>   |                   |                   |
| Accounts payable  | \$ 38,802         | \$ 33,790         |
| Accrued compensation and related liabilities  | 34,818            | 39,412            |
| Accrued expenses  | 17,835            | 11,495            |
| Prepaid tuition   | 49,770            | 55,530            |
| Current portion of capital lease obligations  | 373               | 325               |
| Current portion of long-term debt   | 11                | 1,183             |
| Liabilities held for sale   | 9,630             | 9,436             |
| <b>Total current liabilities</b>  | <b>151,239</b>    | <b>151,171</b>    |
| LONG-TERM CAPITAL LEASE OBLIGATIONS, net of current portion   | 15,141            | 14,151            |
| LONG-TERM DEBT, net of current portion  | 112,913           | 31,402            |
| DEFERRED INCOME TAXES   | 28,298            | 27,265            |
| OTHER LONG-TERM LIABILITIES   | 40,922            | 43,439            |
| LIABILITIES HELD FOR SALE   |                   | 3,050             |
| COMMITMENTS AND CONTINGENCIES (Note 11)   |                   |                   |
| <b>STOCKHOLDERS EQUITY:</b>   |                   |                   |
| Common Stock, \$0.0001 par value:   |                   |                   |
| Common Stock, 120,000 shares authorized, 86,773 issued and 84,516 shares outstanding at June 30, 2007 and 86,238 shares issued and outstanding at June 30, 2006 | 9                 | 9                 |

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|  |            |            |
|--|------------|------------|
| Additional paid-in capital                 | 160,312    | 150,225    |
| Treasury stock                             | (31,368)   |            |
| Retained earnings                          | 255,594    | 248,362    |
| Accumulated other comprehensive income     | 875        | 932        |
| Total stockholders' equity                 | 385,422    | 399,528    |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | \$ 733,935 | \$ 670,006 |

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

**Table of Contents****CORINTHIAN COLLEGES, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF OPERATIONS****(In thousands, except per share data)**

|   | Years Ended June 30, |            |            |
|---|----------------------|------------|------------|
|   | 2007                 | 2006       | 2005       |
| NET REVENUES  | \$ 933,182           | \$ 926,081 | \$ 928,965 |
| OPERATING EXPENSES:   |                      |            |            |
| Educational services (including bad debt expense of \$53,810, \$47,861 and \$46,042 for the years ended June 30, 2007, 2006 and 2005, respectively)                       | 539,746              | 521,058    | 511,817    |
| General and administrative  | 110,654              | 92,677     | 85,327     |
| Marketing and admissions  | 252,333              | 245,390    | 220,357    |
| Impairment, facility closing and severance charges  | 9,712                | 4,170      | 18,165     |
| Total operating expenses  | 912,445              | 863,295    | 835,666    |
| INCOME FROM OPERATIONS  | 20,737               | 62,786     | 93,299     |
| Interest (income)   | (6,291)              | (5,805)    | (3,434)    |
| Interest expense (net of capitalized interest of \$915, \$323 and \$36 for the years ended June 30, 2007, 2006 and 2005, respectively)                                    | 2,811                | 3,162      | 4,209      |
| Other (income) expense, net   | (1,038)              | (1,137)    | 160        |
| INCOME FROM CONTINUING OPERATIONS BEFORE PROVISION FOR INCOME TAXES   | 25,255               | 66,566     | 92,364     |
| Provision for income taxes  | 9,347                | 24,046     | 34,539     |
| INCOME FROM CONTINUING OPERATIONS   | 15,908               | 42,520     | 57,825     |
| (LOSS) INCOME FROM DISCONTINUED OPERATIONS, net of tax (benefit) expense of (\$1,363), (\$333), and \$283 for the years ended June 30, 2007, 2006, and 2005, respectively | (8,676)              | (1,038)    | 598        |
| NET INCOME  | \$ 7,232             | \$ 41,482  | \$ 58,423  |
| INCOME PER SHARE BASIC:   |                      |            |            |
| Income from continuing operations   | \$ 0.18              | \$ 0.48    | \$ 0.63    |
| (Loss) income from discontinued operations  | (0.10)               | (0.01)     | 0.01       |
| Net income  | \$ 0.08              | \$ 0.47    | \$ 0.64    |
| INCOME PER SHARE DILUTED:   |                      |            |            |
| Income from continuing operations   | \$ 0.18              | \$ 0.47    | \$ 0.62    |
| (Loss) income from discontinued operations  | (0.10)               | (0.01)     | 0.01       |
| Net income  | \$ 0.08              | \$ 0.46    | \$ 0.63    |
| Weighted average number of common shares outstanding:   |                      |            |            |
| Basic   | 85,887               | 88,627     | 90,678     |
| Diluted   | 87,097               | 89,973     | 92,760     |

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





**Table of Contents****CORINTHIAN COLLEGES, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY**

(In thousands)

|   | Common Stock |              |                                  | Deferred<br>Stock<br>Compensation | Treasury<br>Stock | Accumulated      |                      |                        |               |  |  |
|---|--------------|--------------|----------------------------------|-----------------------------------|-------------------|------------------|----------------------|------------------------|---------------|--|--|
|   | Shares       | Par<br>Value | Additional<br>Paid-in<br>Capital |                                   |                   | Income<br>(Loss) | Retained<br>Earnings | Stockholders<br>Equity |               |  |  |
|   |              |              |                                  |                                   |                   |                  |                      |                        | Other         |  |  |
|   |              |              |                                  |                                   |                   |                  |                      |                        | Comprehensive |  |  |
| Balance at June 30, 2004  | 90,305       | \$ 9         | \$ 126,339                       | \$                                | \$                | \$ 4             | \$ 214,752           | \$ 341,104             |               |  |  |
| Comprehensive income  |              |              |                                  |                                   |                   |                  |                      |                        |               |  |  |
| Net income  |              |              |                                  |                                   |                   |                  | 58,423               | 58,423                 |               |  |  |
| Foreign currency translation  |              |              |                                  |                                   |                   | 118              |                      | 118                    |               |  |  |
| <b>Total comprehensive income</b>   |              |              |                                  |                                   |                   |                  |                      | <b>58,541</b>          |               |  |  |
| Issuance of common stock from employee stock purchase plan and exercise of stock options, including tax benefit | 897          |              | 10,686                           |                                   |                   |                  |                      | 10,686                 |               |  |  |
| Deferred stock compensation   |              |              | 2,902                            | (2,408)                           |                   |                  |                      | 494                    |               |  |  |
| Balance at June 30, 2005  | 91,202       | 9            | 139,927                          | (2,408)                           |                   | 122              | 273,175              | 410,825                |               |  |  |
| Equity based compensation charge-net of tax upon adoption of SAB 108 (see Note 7)                               |              |              | 6,189                            |                                   |                   |                  | (5,680)              | 509                    |               |  |  |
| Balance as of July 1, 2005 upon adoption of SAB 108   | 91,202       | 9            | 146,116                          | (2,408)                           |                   | 122              | 267,495              | 411,334                |               |  |  |
| Comprehensive income  |              |              |                                  |                                   |                   |                  |                      |                        |               |  |  |
| Net income  |              |              |                                  |                                   |                   |                  | 41,482               | 41,482                 |               |  |  |
| Foreign currency translation  |              |              |                                  |                                   |                   | 810              |                      | 810                    |               |  |  |
| <b>Total comprehensive income</b>   |              |              |                                  |                                   |                   |                  |                      | <b>42,292</b>          |               |  |  |
| Deferred stock compensation   |              |              | (2,408)                          | 2,408                             |                   |                  |                      |                        |               |  |  |
| Issuance of common stock from employee stock purchase plan and exercise of stock options, including tax benefit | 745          |              | 7,202                            |                                   |                   |                  |                      | 7,202                  |               |  |  |
| Treasury stock repurchase and Retirement  | (5,709)      |              | (9,384)                          |                                   |                   |                  | (60,615)             | (69,999)               |               |  |  |
| Stock based compensation expense  |              |              | 8,699                            |                                   |                   |                  |                      | 8,699                  |               |  |  |
| Balance at June 30, 2006  | 86,238       | 9            | 150,225                          |                                   |                   | 932              | 248,362              | 399,528                |               |  |  |
| Comprehensive income  |              |              |                                  |                                   |                   |                  |                      |                        |               |  |  |
| Net income  |              |              |                                  |                                   |                   |                  | 7,232                | 7,232                  |               |  |  |
| Foreign currency translation  |              |              |                                  |                                   |                   | 616              |                      | 616                    |               |  |  |
| Other post employment benefit transition adjustment   |              |              |                                  |                                   |                   | (673)            |                      | (673)                  |               |  |  |

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|   |        |      |            |    |             |    |     |            |            |
|---|--------|------|------------|----|-------------|----|-----|------------|------------|
| Total comprehensive income  |        |      |            |    |             |    |     |            | 7,175      |
| Issuance of common stock from employee stock purchase plan and exercise of stock options, including tax benefit | 535    |      | 3,659      |    |             |    |     |            | 3,659      |
| Treasury stock repurchase   |        |      |            |    | (31,368)    |    |     |            | (31,368)   |
| Stock based compensation expense  |        |      | 6,428      |    |             |    |     |            | 6,428      |
| Balance at June 30, 2007  | 86,773 | \$ 9 | \$ 160,312 | \$ | \$ (31,368) | \$ | 875 | \$ 255,594 | \$ 385,422 |

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

**Table of Contents****CORINTHIAN COLLEGES, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CASH FLOWS****FROM CONTINUED AND DISCONTINUED OPERATIONS****(In thousands)**

|  | Years Ended June 30, |                 |                  |
|--|----------------------|-----------------|------------------|
|  | 2007                 | 2006            | 2005             |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>   |                      |                 |                  |
| Net income   | \$ 7,232             | \$ 41,482       | \$ 58,423        |
| Adjustments to reconcile net income to net cash provided by operating activities:  |                      |                 |                  |
| Depreciation and amortization  | 43,064               | 39,269          | 36,148           |
| Stock based compensation   | 6,428                | 8,699           | 494              |
| Deferred income taxes  | 492                  | (2,339)         | 8,271            |
| Tax benefit of stock options exercised   |                      |                 | 2,502            |
| Loss (gain) on disposal of assets  | 769                  | (1,232)         | 110              |
| Impairment charge  | 10,494               | 2,293           | 16,252           |
| Changes in assets and liabilities, net of effects from acquisitions:   |                      |                 |                  |
| Accounts receivable, net   | (21,542)             | (5,779)         | 460              |
| Student notes receivable, net  | (4,063)              | (104)           | (1,982)          |
| Prepaid expenses and other assets  | (942)                | 14,114          | (22,743)         |
| Accounts payable   | 4,018                | 5,600           | 6,775            |
| Accrued expenses and other liabilities   | 672                  | 6,644           | 9,208            |
| Income taxes payable   | 2                    | 6               | 8                |
| Prepaid tuition  | (7,973)              | 7,166           | 5,660            |
| Other long-term liabilities  | 153                  | 2,895           | 8,339            |
| <b>Net cash provided by operating activities</b>   | <b>38,804</b>        | <b>118,714</b>  | <b>127,925</b>   |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>   |                      |                 |                  |
| Disposals (acquisitions) of schools, colleges and training centers, net of cash acquired   |                      | 18,594          | (9,993)          |
| Capital expenditures   | (70,977)             | (56,054)        | (76,556)         |
| Change in restricted cash  | 10                   |                 |                  |
| Proceeds from sale of assets   | 2,972                | 397             | 34               |
| Sales of marketable securities   | 258,950              | 181,100         | 68,675           |
| Purchases of marketable securities   | (218,050)            | (195,625)       | (110,050)        |
| <b>Net cash (used in) investing activities</b>   | <b>(27,095)</b>      | <b>(51,588)</b> | <b>(127,890)</b> |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>   |                      |                 |                  |
| Proceeds from borrowings   | 80,000               |                 | 9,512            |
| Principal repayments on capital lease obligations and long-term debt   | (1,514)              | (27,291)        | (6,543)          |
| Proceeds from exercise of stock options and employee stock purchase plan (including tax benefit of \$1,000, \$2,000, and \$0 for the years ending June 30, 2007, 2006, and 2005, respectively) | 4,004                | 7,461           | 8,184            |
| Purchase of treasury stock   | (31,368)             | (69,999)        |                  |
| <b>Net cash provided by (used in) financing activities</b>   | <b>51,122</b>        | <b>(89,829)</b> | <b>11,153</b>    |
| <b>EFFECTS OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS</b>   | <b>163</b>           | <b>1,645</b>    | <b>(34)</b>      |
| <b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>  | <b>62,994</b>        | <b>(21,058)</b> | <b>11,154</b>    |
| <b>CASH AND CASH EQUIVALENTS, beginning of year</b>  | <b>36,795</b>        | <b>57,853</b>   | <b>46,699</b>    |

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|  |           |           |           |
|--|-----------|-----------|-----------|
| CASH AND CASH EQUIVALENTS, end of year | \$ 99,789 | \$ 36,795 | \$ 57,853 |
|--|-----------|-----------|-----------|

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:

Cash paid during the year for:

|              |          |           |           |
|--------------|----------|-----------|-----------|
| Income taxes | \$ 8,794 | \$ 22,973 | \$ 45,171 |
|--------------|----------|-----------|-----------|

|  |          |          |          |
|--|----------|----------|----------|
| Interest paid, net of capitalized interest | \$ 2,964 | \$ 2,749 | \$ 4,338 |
|--|----------|----------|----------|

SUPPLEMENTAL DISCLOSURE OF NON CASH INVESTING AND FINANCING ACTIVITIES:

Acquisitions of various schools, colleges and training centers

|                               |    |    |           |
|-------------------------------|----|----|-----------|
| Fair value of assets acquired | \$ | \$ | \$ 11,704 |
|-------------------------------|----|----|-----------|

|                               |  |  |       |
|-------------------------------|--|--|-------|
| Net cash used in acquisitions |  |  | 9,993 |
|-------------------------------|--|--|-------|

|                                 |    |    |          |
|---------------------------------|----|----|----------|
| Liabilities assumed or incurred | \$ | \$ | \$ 1,711 |
|---------------------------------|----|----|----------|

|                         |            |          |    |
|-------------------------|------------|----------|----|
| Capital lease additions | \$ (4,300) | \$ 6,600 | \$ |
|-------------------------|------------|----------|----|

|                                    |    |    |          |
|------------------------------------|----|----|----------|
| Adjustments which reduced goodwill | \$ | \$ | \$ 2,767 |
|------------------------------------|----|----|----------|

|                                  |            |          |    |
|----------------------------------|------------|----------|----|
| Other long-term asset obligation | \$ (4,300) | \$ 4,300 | \$ |
|----------------------------------|------------|----------|----|

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

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**CORINTHIAN COLLEGES, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**JUNE 30, 2007**

**Note 1 Description of the Business and Summary of Significant Accounting Policies**

*Description of the Business*

Corinthian Colleges, Inc. (the Company), a Delaware corporation, was formed in October 1996 during a reorganization transaction with a predecessor company which was accounted for as a recapitalization.

As of June 30, 2007, the Company operated 93 colleges in 24 states and 17 colleges in the Ontario, Canada province in the for-profit, post-secondary education industry. All of the Company's U.S. schools are accredited and grant either diplomas or degrees (associate's, bachelor's and master's) and offer educational opportunities from an extensive and diverse curricula library with an emphasis on four primary concentrations: allied health, business, technology and criminal justice. All of the Canadian schools grant diplomas and are regulated by the provincial ministry of education responsible for registering or licensing the for-profit educational institutions. Through its On-Line Learning division, the Company also offers an online learning alternative available to students pursuing education exclusively online. Revenues generated from the Company's schools consist primarily of tuition and fees paid by students. To pay for a substantial portion of their tuition, the majority of students rely on funds received from federal financial aid programs under Title IV (Title IV Programs) of the Higher Education Act of 1965, as amended (HEA). For further discussion, see Concentration of Risk below and the footnote describing Governmental Regulation.

*Fiscal Year*

Each fiscal year ends June 30.

*Principles of Consolidation*

The accompanying consolidated financial statements include the accounts of Corinthian Colleges, Inc. and each of its wholly owned subsidiaries. All intercompany activity has been eliminated in consolidation.

*Financial Statement Estimates*

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions. Such estimates and assumptions affect the amounts reported and disclosed in the financial statements. Actual results could differ from estimated amounts.

*Cash and Cash Equivalents*

The Company invests cash in excess of operating requirements in short-term time deposits, money market instruments and other investments. Securities with maturities of three months or less at the date of purchase are classified as cash equivalents.

*Marketable Securities*

Statements 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. All available-for-sale securities mature within one year and substantially consist of fixed income and money market mutual funds. At June 30, 2007 and 2006 there were no unrealized gains or losses from available-for-sale securities.

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### *Fair Value of Financial Instruments*

The carrying value of cash and cash equivalents, restricted cash, marketable securities, receivables and accounts payable approximates their fair value at June 30, 2007 and 2006. In addition, the carrying value of all borrowings approximate fair value at June 30, 2007 and 2006.

### *Allowance for Doubtful Accounts*

The Company maintains an allowance for doubtful accounts for estimated losses resulting from the inability, failure or refusal of its students to make required payments. The Company determines 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. The Company generally will write-off accounts receivable balances deemed uncollectible as they are sent to collection agencies. The Company offers a variety of payment plans to help students pay that portion of their education expense not covered by financial aid programs. These balances are unsecured and not guaranteed.

**Table of Contents****CORINTHIAN COLLEGES, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)***Property and Equipment*

Property and equipment are stated at cost and are being depreciated or amortized utilizing the straight-line method over the following estimated useful lives:

|                                |   |
|--------------------------------|---|
| Furniture and equipment        | 7 years                                 |
| Computer hardware and software | 3-10 years                              |
| Leasehold improvements         | Shorter of useful life or term of lease |
| Buildings (owned)              | 39 years                                |

*Internal Software Development Costs*

Corinthian Colleges capitalizes certain internal software development costs in accordance with Statement of Position 98-1 that are amortized using the straight-line method over the estimated lives of the software. Capitalized costs include external direct costs of materials and services consumed in developing or obtaining internal-use software, and payroll-related costs for employees directly associated with the internal software development project. Capitalization of such costs ceases at the point at which the project is substantially complete and ready for its intended purpose. Maintenance and repairs are expensed as incurred. The unamortized computer software costs which are included within the Property and Equipment caption of the Consolidated Balance Sheets, were \$28.4 and \$11.6 at June 30, 2007 and 2006, respectively. The majority of the costs relate to our new Student Management System. The total amount of amortization expense related to capitalized computer software costs recognized within operating expenses on the Consolidated Statement of Operations, was \$2.6, \$2.2, and \$3.0 at June 30, 2007, 2006, and 2005, respectively. Additionally, during fiscal 2005 an impairment charge of \$16.3 million was recognized related to the decision to cease the implementation of our PeopleSoft Student Management System.

*Long-Lived Assets*

The Company evaluates the recoverability of its long-lived assets other than goodwill and indefinite-lived intangible assets in accordance with SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets. SFAS No. 144 requires the recognition of impairment of long-lived assets in the event the net book value of such assets exceeds the future undiscounted cash flows attributable to such assets. The Company assesses the recoverability of its long-lived assets on an annual basis or whenever adverse events or changes in circumstances or the business climate indicate that expected undiscounted future cash flows related to such long-lived assets may not be sufficient to support the net book value of such assets. If undiscounted cash flows are not sufficient to support the recorded assets, impairment is recognized to reduce the carrying value of the long-lived assets to the estimated fair value. Cash flow projections, although subject to a degree of uncertainty, are based on trends of historical performance and management's estimate of future performance, giving consideration to existing and anticipated competitive and economic conditions. Additionally, in conjunction with the review for impairment, the remaining estimated lives of certain of the Company's long-lived assets are assessed.

*Discontinued Operations*

Assets and liabilities expected to be sold or disposed of are presented separately on the consolidated balance sheets as assets or liabilities held for sale. When components of the Company are classified as held for sale, the results of operations of the components are presented separately as income (loss) from discontinued operations, net, for current and prior periods. See Note 2 Discontinued Operations of these notes to our consolidated financial statements for further discussion of our discontinued operations.

*Goodwill and Other Intangible Assets*

The Company has 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. The Company considers 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

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trade names. The Company, however, is ultimately responsible for the valuations. The fair value of identified intangible assets is derived using accepted valuation methodologies, including cost, market, and income approaches, as appropriate, following consultations with valuation firms and in accordance with SFAS No. 141 Business Combinations ( SFAS No. 141 ), and requirements set forth by the Uniform Standards of Professional Appraisal Practice.

As of July 1, 2002, the Company ceased amortization of goodwill recorded in conjunction with past business combinations. In addition, the Company conducted a review of its other identifiable intangible assets and determined that accreditation and trade names met the indefinite life criteria outlined in SFAS No. 142, Goodwill and Other Intangible Assets ( SFAS No. 142 ). The Company's 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, the Company also ceased amortization of the accreditation and trade names as of July 1, 2002. Curricula continue to be amortized over their useful lives ranging generally from three to fifteen years and the amortization is included in general and administrative expenses in the accompanying Consolidated Statements of Operations.



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**CORINTHIAN COLLEGES, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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

Indefinite-lived intangible assets are tested annually or more frequently if circumstances indicate potential impairment, by comparing their fair values to their carrying amounts. To the extent the fair value of an intangible asset is less than its carrying amount, the Company records an impairment charge in the Statements of Operations. For instance, if the Company were to discontinue the use of a trade name or lose accreditation at one or more of its acquired schools to which it has ascribed value for trade names and accreditation, the Company would test the amounts it had 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 the estimate of the present value of these future cash flows were below the carrying values of the related assets, the Company would consider the assets to be impaired and take a charge against the amounts it 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 the Company believes its goodwill and intangible assets are fairly stated, changes in strategy or market conditions could significantly impact these judgments and require adjustments to asset balances.

*Income Taxes*

The Company accounts for income taxes as prescribed by SFAS No. 109, Accounting for Income Taxes. SFAS No. 109 prescribes the use of the asset and liability method to compute the differences between the tax basis of assets and liabilities and the related financial amounts, using currently enacted tax laws.

The Company has deferred 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 the deferred tax assets is principally dependent upon achievement of projected future taxable income offset by deferred tax liabilities. The Company evaluates the realizability of the deferred tax assets annually.

*Foreign Currency Translation*

The financial position and results of operations of the Company's direct and indirect 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 recognized in earnings.

*Comprehensive Income*

For the years ended June 30, 2007, 2006 and 2005, the Company had comprehensive income as defined by SFAS No. 130, Reporting Comprehensive Income, of \$7.2 million, \$42.3 million and \$58.5 million, respectively. For the year ended June 30, 2007, comprehensive income consisted of net income, SFAS No. 158 adoption adjustment, and foreign currency translation adjustment. For the years ended June 30, 2006 and 2005, comprehensive income consists of net income and foreign currency translation adjustments.

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**CORINTHIAN COLLEGES, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

*Revenue Recognition, Accounts Receivable and Prepaid Tuition*

Revenues consist primarily of tuition and fees derived from courses taught in the Company's 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. Refunds are calculated and paid in accordance with applicable federal, state and institutional refund policies. 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 such amounts are expected to be earned within the next year.

Students attending the Company's 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 the Company's enrollment agreements. At the start of each student's respective program or course 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 course. The Company recognizes 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, the Company ceases 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.

*Educational Services*

Educational services include the direct operating expenses of the schools consisting primarily of payroll and payroll related expenses, rents, occupancy and supplies expenses, bad debt expense and other educational related expenses.

*Marketing and Admissions*

Marketing and admissions expense includes compensation for college admissions staff, regional admissions personnel, compensation expenses for marketing and advertising management, and all direct marketing and production costs. Advertising costs are charged to expense as incurred except for brochures and media production costs. The brochures and media production costs are recorded as prepaid expenses and charged to expense as consumed or upon the first airing of the advertisement, respectively. Advertising expenses amounted to approximately \$155.3 million, \$151.9 million, and \$133.3 million for the years ended June 30, 2007, 2006, and 2005, respectively.

*Insurance/Self-Insurance*

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

We previously operated a Bryman College in New Orleans, Louisiana that suffered significant damage as a result of Hurricane Katrina in August 2005. At the time of the event, the Company had business interruption and property damage coverage for this location. As of June 30, 2007 we have recovered approximately \$5.8 million in business interruption and property damage insurance that has been recognized within educational services expenses in our Consolidated Statements of Operations.

*Post Retirement Benefit Obligation*

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The Company provides certain post retirement benefits to a limited number of its previous employees and their families, which were historically accounted for in accordance with SFAS No. 106 Employers Accounting for Postretirement Benefits Other Than Pensions. In September 2006, the FASB issued SFAS No. 158 Employer s Accounting for Defined Benefit Pension and Other Postretirement Plans an amendment of FASB Statements No. 87, 88, 106, and 132(R) (SFAS No. 158). SFAS No. 158 requires recognition of the funded status of such plans as an asset or liability, with changes in the funded status recognized through comprehensive income in the year in which they occur. The Company adopted SFAS No. 158 for its fiscal year ended June 30, 2007. SFAS No. 158 has not had a material impact on the Company s results of operations or financial position.

### *Stock-Based Compensation*

During the first quarter of fiscal 2006, the Company adopted SFAS No. 123(R) in accordance with the modified-prospective-transition method and began recognizing compensation expense for stock options which vested during the year. Stock-based compensation expense of \$6.4 and \$8.7 million (pre-tax) was recorded for fiscal year 2007 and 2006, respectively. The tax benefit recognized in fiscal years 2007 and 2006 was \$2.1 and \$2.2 million, respectively. Fiscal 2005 and prior years compensation expense has not been adjusted to reflect the impact of SFAS No. 123(R). The impact of stock-based compensation (net of tax) on fiscal years 2007 and 2006 is \$0.05 and \$0.07 for both basic and diluted EPS, respectively.

**Table of Contents****CORINTHIAN COLLEGES, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)***Income Per Share*

The Company accounts for net income per common share in accordance with SFAS No. 128 *Earnings Per Share* and SFAS No. 129, *Disclosure of Information about Capital Structure*. Basic net income per common share is computed by dividing income attributable to common stockholders by the weighted average number of common shares outstanding for the period. Diluted net income per common share is computed by dividing income attributable to common stockholders by the weighted average number of common shares outstanding plus the effect of dilutive stock options and restricted stock units, utilizing the treasury stock method.

*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:

|   | <b>For the Year Ended June 30,</b> |             |             |
|---|------------------------------------|-------------|-------------|
|   | <b>2007</b>                        | <b>2006</b> | <b>2005</b> |
|   | <b>(In thousands)</b>              |             |             |
| <b>Revenues from unaffiliated customers</b> |                                    |             |             |
| U.S. operations                             | \$ 876,112                         | \$ 863,655  | \$ 846,394  |
| Canadian operations                         | 57,070                             | 62,426      | 82,571      |
| Consolidated                                | \$ 933,182                         | \$ 926,081  | \$ 928,965  |
| <b>Long-lived assets</b>                    |                                    |             |             |
| U.S. operations                             | \$ 391,713                         | \$ 375,952  | \$ 358,303  |
| Canadian operations                         | 67,343                             | 64,929      | 72,685      |
| Consolidated                                | \$ 459,056                         | \$ 440,881  | \$ 430,988  |

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

*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.

*Concentration of Risk*

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The Company maintains its cash and cash equivalents accounts in financial institutions. Accounts at these institutions are insured by the Federal Deposit Insurance Corporation ( FDIC ) up to \$100,000. The Company performs ongoing evaluations of these institutions to limit its concentration risk exposure.

The Company extends credit for tuition to a majority of its students. A substantial portion is repaid through the student s participation in federally funded financial aid programs. Transfers of funds from the financial aid programs to the Company are made in accordance with the U.S. Department of Education ( ED ) requirements. Approximately 75%, 75% and 79% of the Company s revenues, on a cash basis, were collected from funds distributed under Title IV Programs of the Higher Education Act of 1965, as amended (the HEA ) for the years ended June 30, 2007, 2006 and 2005, respectively. The financial aid and assistance programs are subject to political and budgetary considerations. There is no assurance that such funding will be maintained at current levels. Extensive and complex regulations govern the financial assistance programs in which the Company s students participate. The Company s administration of these programs is periodically reviewed by various regulatory agencies. Any regulatory violation could be the basis for the initiation of potential adverse actions including a suspension, limitation or termination proceeding which could have a material adverse effect on the Company.

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**CORINTHIAN COLLEGES, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

If any of the Company's institutions were to lose its eligibility to participate in federal student financial aid programs, the students at that institution would lose access to funds derived from those programs and would have to seek alternative sources of funds to pay their tuition and fees. Students obtain access to federal student financial aid through an ED prescribed application and eligibility certification process. Student financial aid funds are generally made available to students at prescribed intervals throughout their predetermined expected length of study. Students typically apply the funds received from the federal financial aid programs to pay their tuition and fees. The transfer of funds is from the financial aid program to the student, who then uses those funds to pay for a portion of the cost of their education. The receipt of financial aid funds reduces the student's amounts due to the Company and has no impact on revenue recognition, as the transfer relates to the source of funding for the costs of education which may occur either through Title IV or other funds and resources available to the student.

The Company has routinely provided installment payment plans to many of its students to supplement their federally funded financial aid. While these loans are unsecured, the Company believes it has adequate reserves against these loan balances. However, there can be no assurance that losses will not exceed reserves. Losses in excess of reserves could have a material adverse effect on the Company's business.

**Note 2 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 and campuses 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 and schools in fiscal 2008. We expect to have no significant continuing involvement with the schools after they have been sold.

We believe that the schools and campuses within the Sale Group meet the criteria necessary for such entities to qualify as assets held for sale under the specific provision of SFAS 144. Accordingly, the results of operations of the schools and 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 schools and campuses within the Sale Group are reflected as current assets held for sale and current liabilities held for sale on our consolidated balance sheet as of 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 schools and 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). The charge is reflected as a component of loss from discontinued operations on our consolidated statement of operations for the year ended June 30, 2007.

**Table of Contents****CORINTHIAN COLLEGES, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Combined summary results of operations for the Sale Group is reflected as discontinued operations in our consolidated statements of operations for the years ended June 30 2007, 2006, and 2005, are as follows:

|   | For the fiscal years ending |                                    |               |
|---|-----------------------------|------------------------------------|---------------|
|   | 2007                        | June 30,<br>2006<br>(in thousands) | 2005          |
| <b>Total Discontinued Operations</b>                                  |                             |                                    |               |
| Net revenue   | \$ 37,833                   | \$ 40,565                          | \$ 34,600     |
| (Loss) income before income tax, including estimated loss on disposal | (10,039)                    | (1,371)                            | 881           |
| Income tax (benefit) expense  | (1,363)                     | (333)                              | 283           |
| <b>Total net (loss) income from discontinued operations</b>           | <b>\$ (8,676)</b>           | <b>\$ (1,038)</b>                  | <b>\$ 598</b> |

Combined summary of assets and liabilities of the Sale Group at June 30, 2007 and 2006, are as follows:

|  | As of June 30,   |                        |
|--|------------------|------------------------|
|  | 2007             | 2006<br>(in thousands) |
| <b>Assets</b>  |                  |                        |
| <b>Current Assets:</b>   |                  |                        |
| Accounts receivable, net of allowance for doubtful accounts of \$1,320 and \$1,548 at June 30, 2007 and 2006, respectively | \$ 557           | \$ 691                 |
| Student notes receivable, net of allowance for doubtful accounts of \$2 and \$12 at June 30, 2007 and 2006, respectively   | 11               | 25                     |
| Prepays & other current  | 1,080            | 1,874                  |
| <b>Total Current Assets</b>  | <b>1,648</b>     | <b>2,590</b>           |
| Property, and equipment, net   | 5,446            | 5,463                  |
| Goodwill   | 1,907            | 6,907                  |
| Other Intangibles, net   | 1,599            | 1,708                  |
| Deposits & other assets  | 40               | 45                     |
| <b>Total Assets</b>  | <b>\$ 10,640</b> | <b>\$ 16,713</b>       |
| <b>Liabilities</b>   |                  |                        |
| <b>Current Liabilities:</b>  |                  |                        |
| Accounts payable   | \$ 343           | \$ 1,037               |
| Accrued compensation and related liabilities   | 1,023            | 1,401                  |
| Accrued expenses   | 219              | 341                    |
| Prepaid tuition  | 5,072            | 6,657                  |
| Other liabilities  | 2,973            |                        |
| <b>Total Current Liabilities</b>   | <b>9,630</b>     | <b>9,436</b>           |
| Other long-term liabilities  |                  | 3,050                  |

|                          |                 |                  |
|--------------------------|-----------------|------------------|
| <b>Total Liabilities</b> | <b>\$ 9,630</b> | <b>\$ 12,486</b> |
|--------------------------|-----------------|------------------|



**Table of Contents****CORINTHIAN COLLEGES, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Note 3 Detail of Selected Balance Sheet Accounts**

Prepaid expenses and other current assets consist of the following:

|                              | As of June 30, |           |
|------------------------------|----------------|-----------|
|                              | 2007           | 2006      |
|                              | (In thousands) |           |
| Prepays                      | \$ 23,103      | \$ 17,267 |
| Course materials             | 6,634          | 9,001     |
| Other current assets         | 2,096          | 5,146     |
| Income tax refund receivable | 12,787         | 11,357    |
|                              | \$ 44,620      | \$ 42,771 |

Property and equipment consist of the following:

|  | As of June 30, |            |
|--|----------------|------------|
|  | 2007           | 2006       |
|  | (In thousands) |            |
| Furniture and equipment                        | \$ 122,895     | \$ 93,283  |
| Computer hardware and software                 | 69,591         | 47,816     |
| Leasehold improvements                         | 122,038        | 117,227    |
| Land   | 1,888          | 1,888      |
| Buildings                                      | 37,723         | 34,196     |
|  | 354,135        | 294,410    |
| Less accumulated depreciation and amortization | (137,509)      | (100,789)  |
|  | \$ 216,626     | \$ 193,621 |

Depreciation expense associated with property and equipment was \$39.2 million, \$35.7 million and \$32.0 million for the years ended June 30, 2007, 2006 and 2005, respectively. The amortization for leasehold improvements included in the totals above, was approximately \$16.0 million, \$11.8 million and \$10.3 million for the years ended June 30, 2007, 2006 and 2005, respectively. The gross cost of assets recorded under capital building leases, included above, totaled approximately \$15.5 million and \$18.6 million for the years ended June 30, 2007 and 2006, respectively. The accumulated amortization related to these assets is approximately \$1.2 million and \$2.0 million as of June 30, 2007 and 2006, respectively.

In accordance with its policy on impairment of long-lived assets, the Company identified impairment losses for assets to be held and used during fiscal 2007 and 2006. These losses, which are reflected in the Consolidated Statements of Operations as Impairment, facility closing, and severance charges totaled \$0.1 million and \$0.2 million, in 2007 and 2006, respectively. See Note 10 Impairment, Facility Closing and Severance Charges.

Intangible assets consist of the following:

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|                               | As of June 30, |            |
|-------------------------------|----------------|------------|
|                               | 2007           | 2006       |
|                               | (In thousands) |            |
| Goodwill, net:                |                |            |
| Goodwill                      | \$ 192,375     | \$ 193,887 |
| Less accumulated amortization | (2,421)        | (2,421)    |
| Goodwill, net                 | \$ 189,954     | \$ 191,466 |
| Other Intangibles             |                |            |

**Table of Contents****CORINTHIAN COLLEGES, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

|                                     | As of June 30, |           |
|-------------------------------------|----------------|-----------|
|                                     | 2007           | 2006      |
|                                     | (In thousands) |           |
| <b>Non-amortizable intangibles:</b> |                |           |
| Accreditation                       | \$ 21,821      | \$ 21,718 |
| Trade names                         | 14,033         | 18,943    |
| Non-amortizable intangibles         | \$ 35,854      | \$ 40,661 |
| <b>Amortizable intangibles:</b>     |                |           |
| Curriculum                          | \$ 17,362      | \$ 16,245 |
| Other                               | 2,155          | 1,958     |
| Amortizable intangibles             | \$ 19,517      | \$ 18,203 |
| Less accumulated amortization       | (13,788)       | (11,588)  |
| Amortizable intangibles             | \$ 5,729       | \$ 6,615  |
| Other intangibles, net              | \$ 41,583      | \$ 47,276 |

The changes in the carrying amount of goodwill for the year ended June 30, 2007, were as follows (in thousands):

|  |            |
|--|------------|
| Goodwill balance as of June 30, 2006                                 | \$ 191,466 |
| Goodwill impairment  | (182)      |
| Currency translation adjustment                                      | 2,501      |
| Goodwill adjustment pursuant to business combination (tax provision) | (3,831)    |
| Goodwill balance as of June 30, 2007                                 | \$ 189,954 |

Amortization expense associated with intangibles was \$1.4 million, \$1.5 million and \$3.0 million for the years ended June 30, 2007, 2006 and 2005, respectively. Curriculum is amortized over a range of three to fifteen years. The total weighted-average amortization period for intangible assets subject to amortization is approximately four years as of June 30, 2007. Additionally, the Company recognized non-compete agreement expense totaling approximately \$0.2 million, \$0.3 million and \$0.3 million for the years ended June 30, 2007, 2006 and 2005, respectively.

As of June 30, 2007, estimated future amortization expense is as follows (in thousands):

|            |          |
|------------|----------|
| 2008       | \$ 1,511 |
| 2009       | 1,409    |
| 2010       | 1,125    |
| 2011       | 1,107    |
| 2012       | 470      |
| Thereafter | 107      |
| Total      | \$ 5,729 |

Accrued expenses consist of the following:

|                        | As of June 30, |           |
|------------------------|----------------|-----------|
|                        | 2007           | 2006      |
|                        | (In thousands) |           |
| Accrued advertising    | \$ 2,197       | \$ 2,627  |
| Accrued legal expenses | 7,150          | 1,730     |
| Other                  | 8,488          | 7,138     |
|                        | \$ 17,835      | \$ 11,495 |

#### Note 4 Student Notes Receivable

Student notes receivable represent loans that have maturity dates that generally range between 12 months to 60 months from the loan origination date. The interest charged on the notes generally ranges from 12 to 18 percent per annum. Included in the consolidated balance sheet at June 30, 2007 is \$13.4 million in notes receivable.

#### Note 5 Business Acquisitions/Dispositions

During fiscal 2006 we completed the sale of substantially all the assets of CDI's corporate training division, CDI Education. The Company recognized a gain of approximately \$1.4 million (pre-tax) which is included within other (income) expense on the Consolidated Statement of Operations.

During the fiscal year ended June 30, 2005, the Company acquired substantially all of the assets of A.M.I., Inc. (AMI). AMI operates one campus in Daytona Beach, Florida, which offers accredited diploma programs in the motorcycle, marine and personal watercraft technician fields. The purchase price was approximately \$11.7 million, plus the assumption of certain liabilities of approximately \$0.5 million. The Company funded the acquisition with available cash. The Company has

**Table of Contents****CORINTHIAN COLLEGES, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

assigned value to other intangible assets, such as accreditation, trade names, curriculum and other under SFAS 141. The Company purchased AMI to enter into the growing field of motorcycle, marine and personal watercraft technicians and adds to the Company's growing transportation-related technical curricula, providing the Company with an additional platform for growth and enhancement of its technology programs. AMI also offers specialized motorcycle technician and dealership management programs. This acquisition was accounted for using the purchase method of accounting and AMI's results of operations are included in the consolidated results of operations of the Company since August 2, 2004, its acquisition date.

**Note 6 Long-Term Debt and Capital Lease Obligations**

Long-term debt and capital lease obligations consist of the following:

|  | As of<br>June 30, |           |
|--|-------------------|-----------|
|  | 2007              | 2006      |
|  | (In thousands)    |           |
| Promissory note due April 2007, with interest at 10.95% per annum, secured by certain land and improvements, fully paid in April 2007. | \$                | \$ 1,143  |
| Credit facility obligations, with interest at 7.2% per annum   | 112,913           | 31,390    |
| Capital lease obligations  | 15,514            | 14,476    |
| Other  | 11                | 52        |
|  | 128,438           | 47,061    |
| Less current portion of long-term debt   | (11)              | (1,183)   |
| Less current portion of capital lease obligations  | (373)             | (325)     |
|  | \$ 128,054        | \$ 45,553 |

The Company leases certain facilities under capital leases, which require monthly lease payments of approximately \$0.2 million. The leases have interest rates ranging from 7.6% to 11.7% and expire through January 2027.

Principal payments due under the long-term debt arrangements and future minimum lease payments under the capital lease obligations discussed above are as follows:

|            | Fiscal Years Ending<br>June 30, |                                |          |
|------------|---------------------------------|--------------------------------|----------|
|            | Capital Lease<br>Obligations    | Credit Facility<br>Obligations | Total    |
|            | (In thousands)                  |                                |          |
| 2008       | \$ 1,993                        | \$                             | \$ 1,993 |
| 2009       | 1,996                           |                                | 1,996    |
| 2010       | 1,996                           |                                | 1,996    |
| 2011       | 1,996                           | 112,913                        | 114,909  |
| 2012       | 2,041                           |                                | 2,041    |
| Thereafter | 21,021                          |                                | 21,021   |
|            | 31,043                          | 112,913                        | 143,956  |

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|   |                  |                   |                   |
|---|------------------|-------------------|-------------------|
| Less portion representing interest      | (15,518)         |                   | (15,518)          |
| Present value of minimum lease payments | 15,525           | 112,913           | \$ 128,438        |
| Less current portion                    | (384)            |                   | (384)             |
| <b>Total</b>                            | <b>\$ 15,141</b> | <b>\$ 112,913</b> | <b>\$ 128,054</b> |

In June 2002, the Company entered into a credit agreement for \$100.0 million with a syndication of financial institutions administered by Bank of America, N.A that would have expired in July 2005. In August 2003, the Company amended and restated the credit facility, and increased it to \$235 million, of which \$185 million was a domestic facility and \$50 million was a Canadian facility that would have expired in August 2006. On June 8, 2005, the Company Amended and Restated the credit facility for a second time. On August 10, 2007, we executed Amendment No. 1 to our second amended and restated credit facility dated June 8, 2005. The amendment, which was effective as of June 30, 2007, adjusted the maintenance level for the fixed charge coverage ratio. All other terms of the facility remained unchanged including the

**Table of Contents****CORINTHIAN COLLEGES, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

aggregate borrowing capacity of \$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 an ED financial responsibility composite score ratio. As of June 30, 2007, after giving effect to Amendment No. 1 to the credit facility, we were in compliance with all of the covenants. As of June 30, 2007, the credit facility had borrowings outstanding of \$112.9 million and approximately \$11.2 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. Average daily borrowings outstanding amounted to \$31.4 million in fiscal 2007, \$41.7 million in fiscal 2006 and \$46.4 million in fiscal 2005.

**Note 7 Common Stockholders' Equity***Preferred Stock*

The Company is authorized to issue 500,000 shares of preferred stock. As of June 30, 2007, there were no outstanding shares of preferred stock.

*Common Stock*

The Company's issued and outstanding common stock is entitled to one vote per share on all matters.

Effective November 20, 2003, the Company amended and restated its certificate of incorporation to increase the number of authorized shares of common stock with a par value of \$0.0001 per share to a total of 120,000,000 shares.

*Employee Stock Purchase Plan*

In August 2000, the Company adopted the Corinthian Colleges, Inc. Employee Stock Purchase Plan (ESPP). Under the terms of the ESPP, eligible employees, as defined by the plan to include such criteria as length of employment, are permitted to purchase shares of common stock at a price equal to 90% of the fair market value on the first or last day, whichever is lower, of each six month offering period. A total of 2,000,000 shares of common stock were initially reserved for sale under the ESPP. At June 30, 2007, employees had purchased 428,531 shares and 1,571,469 shares were still available for purchase under the ESPP.

*Stock Options and Restricted Stock Units (RSUs)*

The Company maintains the Corinthian Colleges, Inc. 1998 Performance Award Plan, as amended, (the 1998 Plan), which has been approved by the Company's stockholders. On November 20, 2003, the Company's stockholders approved the Company's 2003 Performance Award Plan, as amended, (the 2003 Plan), which authorized the issuance by the Company of up to the sum of (a) 11,300,000 additional shares of the Company's Common Stock, plus (b) the number of any shares subject to stock options granted under the 1998 Plan which expire or for any reason are cancelled or terminated without being exercised after the adoption of the 2003 Plan, plus (c) the number of any shares subject to stock options granted under the 2004 Plan which expire or for any reason are cancelled or terminated without being exercised after the termination of the 2004 Plan. When the 2003 Plan was approved by the Company's stockholders, the Company's ability to grant new awards under the 1998 Plan terminated, but did not affect awards then outstanding under the 1998 Plan. On November 17, 2004, the Company's Board of Directors also approved the Company's 2004 New Hire Plan (the 2004 Plan) (the 1998 Plan, the 2003 Plan and the 2004 Plan are collectively referred to as the Plans), which authorized the issuance of up to 265,000 additional shares of the Company's Common Stock, but only as an inducement material to the award recipient's entering into employment with the Company and only if the recipient was not previously an employee or director of the Company (or following a bona fide period of non-employment). When the 2003 Plan amendment and restatement was approved, a resolution was passed by the Board of Directors that terminated the Company's ability to grant new awards under the 2004 Plan, but did not affect awards

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then outstanding under the 2004 Plan.

As of June 30, 2007, the number of stock options, stock units, stock appreciation rights or other common stock-based securities available for future grant to directors, officers, employees and other eligible persons were 6,363,036 under the 2003 Plan. Options granted under the Plans were issued at exercise prices ranging from \$1.56 \$33.83 per share and have expiration dates not longer than 10 years. RSUs can be settled only by delivery of the Company's Common Stock. Options and RSUs generally vest over a period of one to four years.



**Table of Contents****CORINTHIAN COLLEGES, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

We adopted SFAS No. 123(R) during the first quarter of fiscal 2006 in accordance with the modified-prospective-transition method and began recognizing compensation expense for stock options which vested during the year.

The fair value of each option award is estimated on the date of grant using the Black-Scholes option pricing model that uses the assumptions noted in the following table. The use of an expected forfeiture rate is not required in the Black-Scholes pricing model. Expected volatilities are based on combining and weighting implied market volatilities and the Company's historical volatility. The Company uses historical data to estimate forfeitures and years until exercise within the valuation model. 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 and will continue to do so on an ongoing basis as actual forfeitures differ from its estimates. If factors change and different assumptions are employed in the application of SFAS 123(R) in future periods, the stock-based compensation expense that the Company records may differ from what was recorded in the previous period.

The expected life of options granted represents the period of time for which the options are expected to be outstanding. The risk-free interest rate is derived from the U.S. treasury yield curve in effect at the date of grant. The Company's policy is not to pay cash dividends on its common stock. Consequently, the Company uses an expected dividend yield of zero in the Black-Scholes option pricing model.

|                               | <b>Fiscal Year<br/>Ended</b> |
|-------------------------------|------------------------------|
|                               | <b>June 30,</b>              |
|                               | <b>2007</b>                  |
| Risk-free rate                | 4.8%                         |
| Expected years until exercise | 4.8 years                    |
| Expected stock volatility     | 40%                          |
| Expected dividends            |                              |
| Expected forfeiture rate      | 10.4%                        |

A summary of the status of the Company's stock options is presented below:

|                                       | <b>Shares</b>         | <b>Weighted<br/>Average<br/>Exercise Price</b> | <b>Weighted<br/>Remaining<br/>Life</b> | <b>Aggregate<br/>Intrinsic<br/>Value</b> |
|---------------------------------------|-----------------------|--|--|--|
| <b>Options</b>                        | <b>(in thousands)</b> | <b>\$</b>                                      | <b>Contractual</b>                     | <b>(in thousands)</b>                    |
| <b>Outstanding at July 1, 2006</b>    | 9,074                 | \$ 14.91                                       |  |  |
| Stock options granted during the year | 1,871                 | \$ 12.45                                       |  |  |
| Stock options exercised               | (367)                 | \$ 8.46  |  |  |
| Forfeitures or expired                | (1,026)               | \$ 18.27                                       |  |  |
| <b>Outstanding at June 30, 2007</b>   | 9,552                 | \$ 14.39                                       | 5.8                                    | \$ 39,300                                |

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|                                     |       |    |       |     |    |        |
|-------------------------------------|-------|----|-------|-----|----|--------|
| <b>Exercisable at June 30, 2007</b> | 6,342 | \$ | 15.38 | 5.2 | \$ | 26,894 |
|-------------------------------------|-------|----|-------|-----|----|--------|

The aggregate intrinsic value in the preceding table represents the total pretax intrinsic value, based on the Company's closing stock price of \$16.29 as of the end of fiscal 2007, which would have been received by the option holders had all option holders exercised their options as of that date. As of the date of exercise, the total intrinsic value of options exercised in fiscal 2007, 2006, and 2005 was \$2.1 million, \$3.9 million, and \$6.4 million, respectively.

Pursuant to SFAS No. 123(R), the weighted-average fair value of stock options granted during fiscal 2007, 2006, and 2005 was \$5.15, \$6.66, and \$11.16 per share, respectively.

As of June 30, 2007, there was \$18.8 million of total unrecognized compensation cost related to nonvested share-based compensation arrangements granted. That cost is expected to be recognized over a weighted-average period of 2 years. The total fair value of shares vested during fiscal year 2007, 2006 and 2005, was \$8.4 million, \$8.0 million and \$52.9 million, respectively.

During fiscal year 2007, the Company issued 366,823 shares in connection with the exercise of stock options. The stock options exercisable at June 30, 2007, 2006, and 2005 were 6,341,998; 6,557,309; and 6,750,105 respectively.

During fiscal 2007, the Company granted 200,291 RSUs with a weighted average fair value of \$12.52. As of June 30, 2007, there were 401,926 RSUs outstanding.

**Table of Contents****CORINTHIAN COLLEGES, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

During fiscal years 2005 and earlier the Company accounted for stock option awards which vested under the intrinsic value method prescribed in APB No. 25, *Accounting for Stock Issued to Employees*, and had adopted the disclosure-only provisions of SFAS No. 123, *Accounting for Stock-Based Compensation*, related to options issued to employees and SFAS No. 148, *Accounting for Stock-Based Compensation Transition and Disclosure*. No compensation expense related to stock option awards was recognized during those prior years. If the Company had adopted Statement 123(R) in prior periods, the impact of that standard would have approximated the impact of SFAS No. 123. The following table illustrates the effect on net income and earnings per share if the Company had applied the fair value recognition provisions of SFAS No. 123, to stock-based employee compensation.

|  | <b>Fiscal Year<br/>Ended<br/>June 30, 2005<br/>(In thousands,<br/>except per<br/>share data)</b> |
|--|--|
| Net income, as reported  | \$ 58,423  |
| Add: Stock-based compensation  | 311  |
| Deduct: Total stock-based employee compensation cost determined under fair value method for all awards, net of related tax effects | (37,181)   |
| <br>Pro forma net income   | <br>\$ 21,553  |
| <br>Basic earnings per share:  |  |
| As reported  | \$ 0.64  |
| Pro forma  | \$ 0.24  |
| <br>Diluted earnings per share:  |  |
| As reported  | \$ 0.63  |
| Pro forma  | \$ 0.23  |

Pursuant to SFAS No. 123, the weighted-average fair value of stock options granted during fiscal 2005 was \$11.16.

The effects of applying SFAS No. 123 on the above pro-forma disclosures are not necessarily indicative of future amounts. The fair value of each option, stock appreciation grant, and other common stock-based securities was estimated on the date of grant using the Black-Scholes method with the following assumptions:

|                               | <b>2005</b> |
|-------------------------------|-------------|
| Risk-free rate                | 3.93%       |
| Expected years until exercise | 7 years     |
| Expected stock volatility     | 105%        |
| Expected dividends            | \$          |

On June 30, 2005, the Compensation Committee of the Company accelerated the vesting of all outstanding stock options granted under the Company's 1998 Plan, 2003 Plan and 2004 Plan with per share exercise prices that were above \$12.77 (the closing market price on June 30, 2005), so that each such option became fully vested. In the case of officers of the Company, this accelerated vesting was conditioned on such optionee entering into a lock-up agreement (the "Lock-Up") providing that he or she will not, subject to limited exceptions, sell, transfer or otherwise dispose of any shares acquired upon exercising the accelerated portion of the option before that portion of the option would have otherwise vested under the terms of the applicable option agreement. As a result of this action, options to purchase approximately 3.0 million shares of the Company's common stock became immediately exercisable. This includes options to purchase approximately 1.6 million shares of the Company's common stock held by the Company's officers with the titles of Division President, Vice President, Senior Vice President, Executive Vice President, Chief Executive Officer and Chairman of the Board (which includes all of its Named Executive Officers), all of which

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are subject to the Lock-Up. Approximately 2.1 million unvested options to purchase shares of the Company's common stock, with per share exercise prices equal to or below \$12.77, were not accelerated and remain subject to time-based vesting. The purpose of the accelerated vesting of these options was to eliminate the compensation expense that the Company would otherwise recognize in the Consolidated Statement of Operations in future financial statements with respect to these options upon the adoption of SFAS No. 123(R).

**Table of Contents****CORINTHIAN COLLEGES, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)***Shares Reserved for Future Issuance*

At June 30, 2007, the Company has reserved the following shares of its Common Stock for issuance upon conversion of the issued and outstanding shares of the ESPP and future issuances of stock options under the 2003 Plan (in thousands):

|   | <b>Fiscal Year Ended<br/>June 30, 2007<br/>(in thousands)</b> |
|---|---|
| Reserved for ESPP stock   | 1,572   |
| Reserved for stock options and RSUs outstanding and available for grant | 6,363   |
| <b>Total</b>  | <b>7,935</b>  |

In fiscal 2006 the Company completed a review of its historic stock option grant practices. As a result of the review, the Company determined that it had unrecorded non-cash equity-based compensation charges associated with certain of its historical stock option grants. The Company believes, however, that these previously unrecorded expenses are not material to its financial statements in any of the periods to which such charges would have related and therefore, did not restate any of its historic financial statements to record such charges. The Company adopted Staff Accounting Bulletin No. 108, *Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in the fiscal 2006 Financial Statements*, (SAB 108). In accordance with the transition provisions of SAB 108, the Company recorded the cumulative effect of the additional non-cash stock option compensation expense and employment taxes from fiscal years 2001 through 2005 as an entry to the beginning retained earnings balance at July 1, 2005.

**Note 8 Weighted Average Number of Common Shares Outstanding**

Basic net income per share is calculated by dividing net income available to common shareholders 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 restated to reflect the two for one stock splits effected in the form of a stock dividend in March 2004:

|  | <b>Fiscal Years Ended June 30,</b> |             |             |
|--|------------------------------------|-------------|-------------|
|  | <b>2007</b>                        | <b>2006</b> | <b>2005</b> |
|  | <b>(In thousands)</b>              |             |             |
| Basic common shares outstanding          | 85,887                             | 88,627      | 90,678      |
| Effects of dilutive securities:          |                                    |             |             |
| Stock options and restricted stock units | 1,210                              | 1,346       | 2,082       |
| Diluted common shares outstanding        | 87,097                             | 89,973      | 92,760      |

On October 27, 2005, the Company's Board of Directors approved a share repurchase of up to \$70 million of the Company's common stock. From November 2005 through January 2006, the Company purchased 5,708,978 shares at a total cost of \$70.0 million (an average share price of \$12.26 per share). During the fourth quarter of fiscal 2006 the shares of treasury stock were retired.

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On October 31, 2006, the Company's Board of Directors approved a share repurchase of up to \$50 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 9 Income Taxes

The components of the income tax provision from continuing operations are as follows:

|   | Fiscal Years Ended June 30, |                  |                  |
|---|-----------------------------|------------------|------------------|
|   | 2007                        | 2006             | 2005             |
|   | (In thousands)              |                  |                  |
| <b>Current provision:</b>               |                             |                  |                  |
| Federal                                 | \$ 6,578                    | \$ 21,907        | \$ 23,313        |
| State                                   | 1,663                       | 3,097            | 3,754            |
|   | 8,241                       | 25,004           | 27,067           |
| <b>Deferred provision:</b>              |                             |                  |                  |
| Federal                                 | 1,469                       | (1,560)          | 6,171            |
| State                                   | 98                          | (348)            | 1,551            |
| Foreign                                 | (461)                       | 950              | (250)            |
|   | 1,106                       | (958)            | 7,472            |
| <b>Total provision for income taxes</b> | <b>\$ 9,347</b>             | <b>\$ 24,046</b> | <b>\$ 34,539</b> |

Actual income tax provision differs from the income tax provision from continuing operations computed by applying the U.S. federal statutory tax rate of 35% for fiscal 2007, 2006 and 2005 to income (loss) before provision for income taxes as follows:

**Table of Contents****CORINTHIAN COLLEGES, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

|  | Fiscal Years Ended June 30, |           |           |
|--|-----------------------------|-----------|-----------|
|  | 2007                        | 2006      | 2005      |
|  | (In thousands)              |           |           |
| Provision at the statutory rate                    | \$ 8,839                    | \$ 23,298 | \$ 32,327 |
| State income tax provision, net of federal benefit | 1,145                       | 1,787     | 3,448     |
| Other  | (637)                       | (1,039)   | (1,236)   |
|  | \$ 9,347                    | \$ 24,046 | \$ 34,539 |

The components of the Company's deferred tax asset and liability are as follows:

|   | As of June 30, |            |
|---|----------------|------------|
|   | 2007           | 2006       |
|   | (In thousands) |            |
| Current deferred tax asset (liability):             |                |            |
| Accounts receivable allowance for doubtful accounts | 9,790          | 7,049      |
| Accrued vacation                                    | 3,726          | 3,325      |
| State taxes   | 173            | 1,293      |
| Net operating loss carry forwards                   | 30             | 845        |
| Acquisition accruals                                | 946            | 1,522      |
| Workers' compensation accrual                       | 1,586          | 2,526      |
| Accrued rent  | 4,500          | 4,063      |
| Other   | 5,005          | 2,787      |
| Valuation allowance                                 |                | (2,467)    |
| Current deferred tax asset                          | 25,756         | 20,943     |
| Non-current deferred tax asset (liability):         |                |            |
| Notes receivable allowance for doubtful accounts    | 1,415          | 925        |
| Stock compensation cost                             | 4,194          | 3,304      |
| Net operating loss carry forwards                   | 727            | 955        |
| Deferred rent                                       | 11,370         | 11,084     |
| Depreciation  | (24,412)       | (25,751)   |
| Acquisition intangibles                             | (12,439)       | (10,646)   |
| Capital assets                                      | (6,082)        | (1,891)    |
| Other   | (3,071)        | (2,371)    |
| Valuation allowance                                 |                | (2,874)    |
| Non-current deferred tax liability                  | (28,298)       | (27,265)   |
|   | \$ (2,542)     | \$ (6,322) |

The Company has acquired various companies with net operating losses that may be utilized in future years. At June 30, 2007, the Company had state net operating loss carry forwards of approximately \$0.5 million with expiration dates beginning on June 30, 2014. In addition, the Company has Canadian non-capital loss carryovers of approximately CAD \$2.2 million with an expiration date on June 30, 2014.

Due to continuing operating profits, the Company concluded in fiscal 2007 that it is more likely than not that CDI's deferred tax assets would be realized. Accordingly, the Company reduced the valuation allowance on CDI's deferred tax assets by \$5.3 million. As a result of the realization

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of acquired non-capital loss carryovers and the change in judgment regarding CDI's valuation allowance, the Company reduced goodwill by \$3.7 million during fiscal 2007. The Company's current intent is to re-invest in Canada all earnings from CDI. Accordingly, no deferred taxes have been provided on CDI's un-remitted earnings.

The Company has tax deductible goodwill in the amount of \$32.3 million as of June 30, 2007. During fiscal 2007, 2006 and 2005, \$19.9 million, \$63.0 million and \$94.5 million, respectively, of the Company's income from continuing operations was generated in the United States.



**Table of Contents****CORINTHIAN COLLEGES, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Note 10 Impairment, Facility Closing, and Severance Charges**

During fiscal 2007 the decision was made to consolidate additional brands as the Company continues to establish the national Everest brand. As a result of the 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 \$4.8 million, which primarily represented the trade name value impacted by the name change. The company also recorded lease termination costs \$1.4 related to student housing, a facility closing charge of \$0.6, million related to the campus in Victoria, British Columbia, and approximately \$2.9 million related to severance expense, partially associated with the retirement of David Moore as Chairman of the Board of Directors and as an 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 our Rancho Cucamonga, CA campuses in the fourth quarter of 2006 and recorded 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.

The components of the charges and the related balance sheet accounts for fiscal year 2007 and 2006 were as follows (in thousands):

|                          | Goodwill<br>&<br>Intangible<br>Asset<br>Impairment | Fixed Asset<br>Write-offs | Severance<br>and<br>Benefits | Facility<br>Related | Total    |
|--------------------------|--|---------------------------|------------------------------|---------------------|----------|
| Balance at June 30, 2005 | \$   | \$                        | \$ 456                       | \$ 4,778            | \$ 5,234 |
| Charges                  | 2,293  | 222                       | 833                          | 822                 | 4,170    |
| Adjustments              |  |                           | 36                           | 167                 | 203      |
| Cash payments            |  |                           | (487)                        | (2,124)             | (2,611)  |
| Asset writedowns         | (2,293)  | (222)                     |                              |                     | (2,515)  |
| Balance at June 30, 2006 | \$   | \$                        | \$ 838                       | \$ 3,643            | \$ 4,481 |
| Charges                  | 4,807  |                           | 2,922                        | 1,983               | 9,712    |
| Adjustments              |  |                           | 166                          | (73)                | 93       |
| Cash payments            |  |                           | (3,449)                      | (1,927)             | (5,376)  |
| Asset writedowns         | (4,807)  |                           |                              |                     | (4,807)  |
| Balance at June 30, 2007 | \$   | \$                        | \$ 477                       | \$ 3,626            | \$ 4,103 |

**Note 11 Commitments and Contingencies***Leases*

The Company leases most of its operating facilities and certain equipment under non-cancelable operating leases expiring at various dates through 2027. In most cases, the facility leases require the Company to pay various operating expenses of the facilities in addition to base

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monthly lease payments. In certain cases, the Company has renewable options and or leases containing ordinary rental escalations on the space. Future minimum lease payments under operating leases are as follows for the twelve months ending June 30:

|            | <b>Operating</b>      |
|------------|-----------------------|
|            | <b>Leases</b>         |
|            | <b>(In thousands)</b> |
| 2008       | \$ 80,815             |
| 2009       | 72,302                |
| 2010       | 65,736                |
| 2011       | 61,962                |
| 2012       | 50,876                |
| Thereafter | 209,020               |
|            | \$ 540,711            |

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**CORINTHIAN COLLEGES, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Lease expense (facility and equipment) for the fiscal years ended June 30, 2007, 2006 and 2005 amounted to \$74.0 million, \$74.0 million and \$68.0 million, respectively, and is reflected in educational services and general and administrative expense in the accompanying consolidated statements of operations.

*Legal Matters*

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

On March 8, 2004, the Company was served with two virtually identical putative class action complaints entitled *Travis v. Rhodes Colleges, Inc., Corinthian Colleges, Inc., and Florida Metropolitan University*, and *Satz v. Rhodes Colleges, Inc., Corinthian Colleges, Inc., and Florida Metropolitan University*. Additionally, on April 15, 2005, the Company received another complaint entitled *Alan Alvarez, et al. v. Rhodes Colleges, Inc., Corinthian Colleges, Inc., and Florida Metropolitan University, Inc.* The *Alvarez* first amended and supplemental complaint named ninety-nine plaintiffs. Additionally, the court in the *Alvarez* case granted the plaintiffs' motion to add an additional seven plaintiffs to the first amended and supplemental complaint. The named plaintiffs in these lawsuits are current and former students in the Company's Florida Metropolitan University (FMU) campuses in Florida and online. The plaintiffs allege that FMU concealed the fact that it is not accredited by the Commission on Colleges of the Southern Association of Colleges and Schools and that FMU credits are not transferable to other institutions. The *Satz* and *Travis* plaintiffs seek recovery of compensatory damages and attorneys' fees under common law and Florida's Deceptive and Unfair Trade Practices Act for themselves and all similarly situated people. The *Alvarez* plaintiffs seek damages on behalf of themselves under common law and Florida's Deceptive and Unfair Trade Practices Act. The arbitrator in the *Satz* case found for the Company on all counts in an award on the Company's motion to dismiss. The arbitrator also found that Satz breached his agreement with FMU by filing in court rather than seeking arbitration and is therefore responsible to pay FMU's damages associated with compelling the action to arbitration. The arbitrator also declared FMU the prevailing party for purposes of the Deceptive and Unfair Trade Practices Act. The Company is continuing to pursue its remedies against Satz related to these findings. 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 *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 were consolidated into one action. A first consolidated amended complaint was filed in February 2005. The consolidated case is purportedly brought on behalf of all persons who acquired shares of the Company's common stock during a specified class period from August 27, 2003 through July 30, 2004. The consolidated complaint alleges that, in violation of Section 10(b) of the Securities Exchange Act of 1934 (the Act) and Rule 10b-5 promulgated thereunder by the Securities and Exchange Commission, the defendants made certain material misrepresentations and failed to disclose certain material facts about the condition of the Company's business and prospects during the putative class period, causing the plaintiffs to purchase the Company's common stock at artificially inflated prices. The plaintiffs further claim that Messrs. Moore, Beal, St. Pierre and Digiovanni are liable under Section 20(a) of the Act. The plaintiffs seek unspecified amounts in damages, interest, and costs, as well as other relief. On April 24, 2006, the Court granted the Company's motion to dismiss the plaintiff's third consolidated amended complaint with prejudice. The plaintiff has appealed the dismissal to the Federal Ninth Circuit Court of Appeals. The Company intends to continue vigorously defending itself and its current and former officers in this matter.

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**CORINTHIAN COLLEGES, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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 Digiiovanni, and against the Company as a nominal defendant. Each individual defendant is one of the Company's current or former officers and/or directors. The lawsuits allege breach of fiduciary duty, abuse of control, gross mismanagement, waste of corporate assets, unjust enrichment, and violations of the California corporations' code, essentially based on the same allegations of conduct complained of in the initial federal securities class action complaints. The *Collet* and *Davila* cases have now been consolidated into one action. A memorandum of understanding was executed by the parties resolving the *Collet* and *Davila* cases, pending court approval, for an immaterial amount of attorneys' fees to be paid by the Company's directors and officers' insurance carrier to the plaintiffs' lawyers, and with the Company agreeing to certain corporate governance matters.

The Company has previously reported that it received document requests from the California Attorney General's Office (the "CAG") starting in June 2004. The CAG made supplemental information requests, and Company personnel and counsel met with representatives of the CAG on numerous occasions. On July 31, 2007, the company reached a settlement with the CAG by way of a court-approved, stipulated judgment. The settlement does not constitute a finding or evidence of wrongdoing, and the company specifically denied any wrongdoing as part of the agreement. The financial terms of the settlement totaled approximately \$6.5 million, which includes payments to the CAG for its discretionary use, administrative costs, future consumer education and protection, and debt forgiveness for former students. Additionally, the Company agreed to cease enrolling students in 11 programs in nine California campuses and to other injunctive relief. The Company does not expect its future obligations under the settlement to have a material adverse impact on its results of operation or financial condition.

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.

The Company has previously reported a lawsuit, subsequently compelled to arbitration, 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. The Company has resolved that matter through an immaterial settlement, a significant portion of which was paid by the Company's former insurance carrier.

The Company has previously reported a number of lawsuits, subsequently compelled to arbitration or stayed by trial courts pending the outcome of arbitrations, collectively referred to in prior filings as *Jaelyn Fisher, et al. v. Corinthian Colleges, Inc.* These lawsuits and arbitration proceedings ultimately included more than one hundred students from the Company's campuses in Tacoma, Renton and Lynwood, Washington. The Company has resolved these matters through an immaterial settlement, the majority of which was paid by the Company's former insurance carrier.

The Company has previously reported that Florida Metropolitan University, Inc. ("FMUI"), a wholly-owned subsidiary of the Company, had received two investigative records subpoenas from the Florida Attorney General's office (the "FL AG"), as well as additional information requests via correspondence. On August 21, 2007 the Company resolved the FL AG's investigation by entering into an assurance of voluntary compliance (the "AVC") with the FL AG's office. In entering into the AVC, the Company denied that it engaged in any conduct that violates any law or rule or that constitutes any unethical, tortious or otherwise inappropriate conduct. The AVC does not require the Company to materially modify its business practices, and the Company paid no fines, restitution or penalties as part of the settlement. The Company agreed to make an immaterial payment to the FL AG's office to resolve the inquiry, which the FL AG's office is free to use to offset its investigative costs and attorneys' fees, or for consumer education, consumer protection efforts, donations to charitable organizations, or other educational purposes.

In January 2006, the Company was served with a lawsuit captioned *Mercidita Garcia, et al. v. Corinthian Colleges, Inc.*, filed by fourteen current or former surgical technologist students from the Company's Parks College located in Thornton, Colorado. The counsel for the plaintiffs claimed to represent additional former surgical technologist students at this campus. The plaintiffs alleged negligent/intentional misrepresentations/omissions and violations of the state consumer protection act regarding alleged misrepresentations about the program. The complaint did seek certification as a class action. The Company removed this case to federal court and, on October 20, 2006, the court dismissed the complaint and compelled the plaintiffs to binding arbitration. In August 2007, approximately 30 former students filed claims in arbitration

regarding the foregoing matters. The Company intends to vigorously defend itself in this matter.

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The Company has previously reported that the Securities and Exchange Commission (the SEC) commenced a review of the Company's historic stock option grants in August 2006. In July 2007, the Company received notice that the SEC staff had completed its inquiry and recommended no enforcement action at this time.

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

The Company is aware of several state attorneys general who have opened inquiries or investigations into arrangements between lenders and institutions of higher education with regard to alternative student loans i.e., loans not sponsored or guaranteed by any governmental agency. In this regard, the Company has received requests for information from the Attorney General of the State of Illinois regarding our relationships with student loan providers. The Company has also received a Civil Investigative Demand from the Arizona Attorney General's office requesting substantially equivalent information. The Company has been informed by the Arizona AG's office and the Illinois AG's office that both are conducting wide-ranging inquiries of student lending practices generally, and that the Company is not the sole recipient of this type of information request. The Company has responded to both information requests and intends to cooperate fully with both inquiries.

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 June 30, 2007, the Company had established aggregate reserves of approximately \$7.2 million 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.

**Note 12 Employee Benefit Plans**

The Company has established an employee savings plan under Section 401(k) of the Internal Revenue Code (the Plan). Employees classified as regular status as defined and who are regularly scheduled to work at least 30 hours per week (20 hours per week for instructors) are eligible to participate in the Plan beginning the first of the month following one month of employment. Company contributions begin the first of the month following 12 months of employment and 1,000 hours worked. Contributions to the plan by the Company are discretionary. The plan provides for vesting of Company contributions over a five-year period from the date of employment. Company contributions to the plan were approximately \$3.0 million, \$2.4 million and \$2.2 million for the fiscal years ended June 30, 2007, 2006 and 2005, respectively.

**Note 13 Governmental Regulation**

The Company and each institution are subject to extensive regulation by federal and state governmental agencies and accrediting bodies. In particular, HEA, and the regulations promulgated thereunder by ED subject the institutions to significant regulatory scrutiny on the basis of numerous standards that schools must satisfy in order to participate in the various federal student financial assistance programs under Title IV of the HEA.

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**CORINTHIAN COLLEGES, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

To participate in the Title IV Programs, an institution must be authorized to offer its programs of instruction by the relevant agencies of the state in which it is located, accredited by an accrediting agency recognized by the ED and certified as eligible by the ED. The ED will certify an institution to participate in the Title IV Programs only after the institution has demonstrated compliance with the HEA and the ED's extensive regulations regarding institutional eligibility. An institution must also demonstrate its compliance to the ED on an ongoing basis. As of June 30, 2007, management believes the Company's institutions were in compliance with the applicable regulations in all material respects.

The HEA requires accrediting agencies to review many aspects of an institution's operations in order to ensure that the training offered is of sufficiently high quality to achieve satisfactory outcomes. Failure to demonstrate compliance with accrediting standards may result in the imposition of probation or Show Cause orders, or the requirements of periodic reports, and ultimately the loss of accreditation if deficiencies are not remediated.

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

Political and budgetary concerns significantly affect the Title IV Programs. Congress must reauthorize the student financial assistance programs of the HEA approximately every five to six years, and the last reauthorization took place in 1998. Consequently, Congress has been considering the reauthorization of the HEA.

A significant component of Congress' initiative to reduce abuse in the Title IV Programs has been the imposition of limitations on institutions whose former students default on the repayment of their federally guaranteed or funded student loans above specific rates (cohort default rate). Although the Company is not obligated to repay any of its students or former students defaults on payments of federally guaranteed student loans, if such default rates equal or exceed 25% for three consecutive years, the institution may lose participation eligibility in the guaranteed loan program and its students will be denied access to the federally guaranteed student loan programs. An institution whose cohort default rate under certain Title IV Programs for any federal fiscal year exceeds 40% may have its eligibility to participate in all of the Title IV Programs limited, suspended or terminated by the ED.

All institutions participating in the Title IV Programs must satisfy specific standards of financial responsibility. The ED evaluates institutions for compliance with these standards each year, based on the institution's annual audited financial statements and following a change of ownership of the institution.

The ED calculates the institution's composite score for financial responsibility based on its (i) equity ratio, which measures the institution's capital resources, ability to borrow and financial viability; (ii) primary reserve ratio, which measures the institution's ability to support current operations from expendable resources; and (iii) net income ratio, which measures the institution's ability to operate at a profit. An institution that does not meet the ED's minimum composite score may demonstrate its financial responsibility by posting a letter of credit in favor of the ED in an amount equal to at least 50% of the Title IV Program funds received by the institution during its prior fiscal year and possibly accepting other conditions on its participation in the Title IV Programs. At June 30, 2007, all of the Company's U.S. institutions and the Company on a consolidated basis satisfied each of the ED's standards of financial responsibility.

Because the Company operates in a highly regulated industry, it, like other industry participants, may be subject from time to time to investigations, claims of non-compliance, or lawsuits by governmental agencies or third parties, which allege statutory violations, regulatory infractions, or common law causes of action.

There can be no assurance that other regulatory agencies or third parties will not undertake investigations or make claims against the Company, or that such claims, if made, will not have a material adverse effect on the Company's business, results of operations or financial condition.





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|  | First                                    | Fiscal Quarters |            |            | Fiscal     |
|--|--|-----------------|------------|------------|------------|
|  |  | Second          | Third      | Fourth     | Year       |
|  | (In thousands, except per share amounts) |                 |            |            |            |
| <b>Fiscal 2007</b>                             |  |                 |            |            |            |
| Net revenues (2)                               | \$ 222,089                               | \$ 235,119      | \$ 241,051 | \$ 234,923 | \$ 933,182 |
| Income from continuing operations (2)          | 2,337                                    | 3,259           | 12,546     | (2,234)    | 15,908     |
| (Loss) Income from discontinued operations (2) | (937)                                    | (676)           | (541)      | (6,522)    | (8,676)    |
| Net income                                     | 1,400                                    | 2,583           | 12,005     | (8,756)    | 7,232      |
| Income per share (1):                          |  |                 |            |            |            |
| Basic  | \$ 0.02                                  | \$ 0.03         | \$ 0.14    | \$ (0.10)  | \$ 0.08    |
| Diluted  | \$ 0.02                                  | \$ 0.03         | \$ 0.14    | \$ (0.10)  | \$ 0.08    |
| <b>Fiscal 2006</b>                             |  |                 |            |            |            |
| Net revenues (2)                               | \$ 227,153                               | \$ 234,454      | \$ 239,231 | \$ 225,243 | \$ 926,081 |
| Income from continuing operations (2)          | 8,066                                    | 11,323          | 14,833     | 8,298      | 42,520     |
| (Loss) Income from discontinued operations (2) | (688)                                    | (600)           | (174)      | 424        | (1,038)    |
| Net income                                     | 7,378                                    | 10,723          | 14,659     | 8,722      | 41,482     |
| Income per share (1):                          |  |                 |            |            |            |
| Basic  | \$ 0.08                                  | \$ 0.12         | \$ 0.17    | \$ 0.10    | \$ 0.47    |
| Diluted  | \$ 0.08                                  | \$ 0.12         | \$ 0.17    | \$ 0.10    | \$ 0.46    |
| <b>Fiscal 2005</b>                             |  |                 |            |            |            |
| Net revenues (2)                               | \$ 217,436                               | \$ 237,971      | \$ 243,496 | \$ 230,062 | \$ 928,965 |
| Income from continuing operations (2)          | 14,934                                   | 19,950          | 21,673     | 1,268      | 57,825     |
| (Loss) Income from discontinued operations (2) | (325)                                    | 470             | (30)       | 483        | 598        |
| Net income                                     | 14,609                                   | 20,420          | 21,643     | 1,751      | 58,423     |
| Income per share (1):                          |  |                 |            |            |            |
| Basic  | \$ 0.16                                  | \$ 0.23         | \$ 0.24    | \$ 0.02    | \$ 0.64    |
| Diluted  | \$ 0.16                                  | \$ 0.22         | \$ 0.23    | \$ 0.02    | \$ 0.63    |

(1) Basic and diluted earnings per share are calculated independently for each of the quarters presented. Accordingly, the sum of the quarterly earnings per share may not agree with the annual earnings per share amount for the corresponding year.

(2) Amounts prior to fourth quarter of 2007 reflected in the table above differ from previously filed quarterly reports. During the fourth quarter of 2007 we began to classify the results of operations related to specific campuses held for sale as discontinued operations. See Note 2

Discontinued Operations of these notes to our consolidated financial statements for further discussion of our discontinued operations.

**Note 15 Valuation and Qualifying Accounts**

|                                 | Balance at<br>Beginning<br>of Year | Charged to<br>Costs and<br>Expenses | Deductions | Balance at<br>End of<br>Year |
|---------------------------------|------------------------------------|-------------------------------------|------------|------------------------------|
|                                 | (In thousands)                     |                                     |            |                              |
| Allowance for doubtful accounts |                                    |                                     |            |                              |
| Accounts receivable:            |                                    |                                     |            |                              |
| Year ended June 30, 2005        | 19,171                             | 45,594                              | (44,566)   | 20,199                       |
| Year ended June 30, 2006        | 20,199                             | 48,002                              | (50,116)   | 18,085                       |
| Year ended June 30, 2007        | 18,085                             | 52,137                              | (47,080)   | 24,142                       |
| Student notes receivable:       |                                    |                                     |            |                              |

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|                          |       |       |       |       |
|--------------------------|-------|-------|-------|-------|
| Year ended June 30, 2005 | 1,511 | 448   | (12)  | 1,947 |
| Year ended June 30, 2006 | 1,947 | (141) | 437   | 2,243 |
| Year ended June 30, 2007 | 2,243 | 1,673 | (466) | 3,450 |

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**ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

None.

**ITEM 9A. 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.

**Management's Report on Internal Control Over Financial Reporting**

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f). Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our evaluation under the framework in *Internal Control-Integrated Framework*, our management concluded that our internal control over financial reporting was effective as of June 30, 2007. Our management's assessment of the effectiveness of our internal control over financial reporting as of June 30, 2007 has been audited by Ernst & Young LLP, an independent registered public accounting firm, as stated in their report which is included herein.

**Changes in Internal Controls Over Financial Reporting**

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

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

**ITEM 9B. OTHER INFORMATION**

None.

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**PART III**

**ITEM 10. DIRECTORS, EXECUTIVE OFFICERS, AND CORPORATE GOVERNANCE**

**Directors and Executive Officers**

Certain information in response to this item is incorporated herein by reference to the Company's definitive Proxy Statement for the Annual Meeting of Shareholders, which will be filed with the Securities and Exchange Commission not later than 120 days after June 30, 2007. Information regarding executive officers of the Company is set forth under the caption "Executive Officers of the Registrant" in Item 1 hereof.

**Corporate Governance**

We have adopted a code of ethics that applies to all of our executive officers and senior financial officers (including our chief executive officer, chief financial officer, controller, and any person performing similar functions). This Code of Business Conduct and Ethics is available on our website at <http://www.cci.edu> under the heading "Investor Relations."

**ITEM 11. EXECUTIVE COMPENSATION**

Information in response to this Item is incorporated herein by reference from the Company's definitive Proxy Statement for the Annual Meeting of Shareholders, which will be filed with the Securities and Exchange Commission not later than 120 days after June 30, 2007.

**ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS**

Information in response to this Item is incorporated herein by reference from the Company's definitive Proxy Statement for the Annual Meeting of Shareholders, which will be filed with the Securities and Exchange Commission not later than 120 days after June 30, 2007.

**ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE**

Information in response to this Item is incorporated herein by reference from the Company's definitive Proxy Statement for the Annual Meeting of Shareholders, which will be filed with the Securities and Exchange Commission not later than 120 days after June 30, 2007.

**ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES**

Information required to be furnished by Item 9(e) of Schedule 14A of Regulation S-K will be included in the Company's 2007 Proxy Statement for the Annual Meeting of Shareholders, which will be filed with the Securities and Exchange Commission not later than 120 days after June 30, 2007, and is incorporated herein by reference.

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**PART IV**

**ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES**

*The following documents are filed as part of this Report:*

1. Financial Statements

The required financial statements and financial statement schedules of the Company and its subsidiaries are included in Part II, Item 8, of this Form 10-K. All other schedules have been omitted since the required information is not present or not present in amounts sufficient to require the submission of such schedules, or because the information required is included in the consolidated financial statements or the notes thereto.

3. Exhibits:

The exhibits listed in the accompanying Index to Exhibits are filed as part of this annual report.

**Table of Contents****CORINTHIAN COLLEGES, INC.****INDEX TO EXHIBITS**

| <b>Exhibit<br/>Number</b> | <b>Description of Exhibit</b>  | <b>Incorporation<br/>Reference</b> |
|---------------------------|--|------------------------------------|
| 2.2+                      | Stock Purchase and Sale Agreement, dated as of June 9, 2003, by and among Corinthian Colleges, Inc., Career Choices, Inc., Lombard North American Partners, L.P., Kenneth Years, Alexander Hehmeyer, Paul Rerucha, Nancy Rerucha, Wallace Wright, Lane Hart, Hamilton Oswald, Kimberly Lothyan, Guy Bell, Amy Kuntz, Michael Sherbourne, Joseph File, Howard Jessup and William Calvert, excluding exhibits, appendices and schedules thereto  | (a)                                |
| 2.7+                      | Asset Purchase Agreement, dated as of June 17, 2004, by and among Florida Metropolitan University, Inc., A.M.I., Inc., a Tennessee corporation, and Lamar Williams   | (b)                                |
| 2.8+                      | Asset Sale Agreement, dated as of September 21, 2005, by and between CDI Career Development Institutes Ltd. and CrossOff Incorporated, excluding appendices and schedules thereto  | (c)                                |
| 3.1 +                     | Amended and Restated Certificate of Incorporation  | (d)                                |
| 3.4 +                     | Amended and Restated Bylaws of the Company   | (e)                                |
| 10.52+                    | 1998 Performance Award Plan of the Company   | (f)                                |
| 10.53+                    | Executive Deferral Plan of the Company   | (g)                                |
| 10.54+                    | Form of Director Stock Option Agreement under the 2003 Performance Award Plan of the Company   | (h)                                |
| 10.55+                    | Form of Incentive Stock Option Agreement issued to executive officers under the 2003 Performance Award Plan of the Company   | (i)                                |
| 10.56+                    | Form of Restricted Stock Unit Award Agreement issued to executive officers under the 2003 Performance Award Plan of the Company  | (j)                                |
| 10.57+                    | 2004 New-Hire Award Plan of the Company  | (k)                                |
| 10.58+                    | Form of Option Agreement under the 2004 New-Hire Award Plan of the Company   | (l)                                |
| 10.59+                    | Form of Restricted Stock Unit Award Agreement under the 2004 New-Hire Award Plan of the Company  | (m)                                |
| 10.60+                    | Amendment 2005-1 to the 2004 New-Hire Award Plan of the Company  | (n)                                |
| 10.61+                    | Employment Agreement dated February 10, 2005 between the Company and Kenneth S. Ord  | (o)                                |
| 10.62+                    | Second Amended and Restated Credit Agreement, dated as of June 8, 2005, among the Company, Corinthian Canada Acquisition, Inc., Bank of America, N.A., as Domestic Administrative Agent, Domestic Swing Line Lender and Domestic L/C Issuer, Bank of America, N.A., acting through its Canada Branch, as Canadian Administrative Agent, Canadian Swing Line Lender and Canadian L/C Issuer, Union Bank of California, N.A., as Syndication Agent, U.S. Bank National Association and JPMorgan Chase Bank, as Co-Documentation Agents, each Lender from time to time party thereto, and Banc of America Securities LLC, as Sole Lead Arranger and Sole Book Manager | (p)                                |
| 10.62.1+                  | Amendment No. 1 to Second Amended and Restated Credit Agreement, dated as of August 10, 2007, among the Company, CDI Career Development Institutes Ltd., the Lenders from time to time party thereto, Bank of America, N.A., as Domestic Administrative Agent, Domestic L/C Issuer and Domestic Swing Line Lender, Bank of America, N.A., acting through its Canadian Branch, as Canadian Administrative Agent, Canadian L/C Issuer and Canadian Swing Line Lender, and certain other agents   | (q)                                |

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| <b>Exhibit<br/>Number</b> | <b>Description of Exhibit</b>  | <b>Incorporation<br/>Reference</b> |
|---------------------------|--|------------------------------------|
| 10.63+                    | Form of Lock-Up Agreement between the Company and each of the officers of the Company with the title of Division President, Vice President, Senior Vice President, Executive Vice President, Chief Executive Officer or Chairman of the Board, each entered into as of June 30, 2005 | (r)                                |
| 10.64+                    | Description of Verbal Arrangements with Members of the Company's Board of Directors  | (s)                                |
| 10.65+                    | Form of Employment Agreement, distributed August 10, 2005, between the Company and each of William B. Buchanan, Robert C. Owen and Mark Pelesh   | (t)                                |
| 10.66+                    | Form of Stock Option Agreement Amendment between the Company and each of its Directors   | (u)                                |
| 10.67+                    | 2003 Performance Award Plan of the Company, as amended and restated  | (v)                                |
| 10.68+                    | Form of Employment Agreement by and between the Company and each of Peter Waller, Beth Wilson and Stan Mortensen   | (w)                                |
| 10.69+                    | Form of Employment Agreement by and between the Company and David G. Moore   | (x)                                |
| 10.70+                    | Form of Executive Bonus Agreement under the 2003 Performance Award Plan of the Company by and between the Company and certain of its executive officers  | (y)                                |
| 10.71+                    | Form of Executive Bonus Agreement under the 2003 Performance Award Plan of the Company by and between the Company and certain of its executive officers  | (z)                                |
| 10.72+                    | Form of Non-Qualified Stock Option Agreement issued to certain executive officers under the 2003 Performance Award Plan  | (aa)                               |
| 10.73+                    | Form of Employment Agreement amended and restated as of August 21, 2007, by and between the Company and Jack D. Massimino  | (bb)                               |
| 10.74+                    | Form of performance-related Nonqualified Stock Option Agreement to be entered into between the Company and Jack D. Massimino under the 2003 Performance Award Plan   | (cc)                               |
| 10.75                     | Form of Restricted Stock Unit Award Agreement under the 2003 Performance Award Plan of the Company   |                                    |
| 21.1                      | List of Subsidiaries   |                                    |
| 23.1                      | Consent of Independent Registered Public Accounting Firm   |                                    |
| 24.1                      | Power of Attorney (see signature page)   |                                    |
| 31.1                      | Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002   |                                    |
| 31.2                      | Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002   |                                    |
| 32.1                      | Certification Pursuant to 18 U.S.C Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002  |                                    |
| 32.2                      | Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002   |                                    |

+ Previously filed with the Securities and Exchange Commission as set forth in the following table:

- (a) Incorporated by reference to Exhibit 2.1 of the Report on Form 8-K filed with the Securities and Exchange Commission on June 12, 2003.
- (b) Incorporated by reference to the like-numbered exhibit of the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission on September 13, 2004.
- (c) Incorporated by Reference to Exhibit 10.1 of the Report on Form 8-K filed with the Securities and Exchange Commission on September 27, 2005.



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- (d) Incorporated by reference to Appendix B of the Company's Proxy Statement (Commission File No. 000-25283) filed with the Securities and Exchange Commission pursuant to Section 14(a) of the Exchange Act on December 15, 2006.
- (e) Incorporated by reference to Exhibit 3.1 of the Report on Form 8-K as filed with the Securities and Exchange Commission on February 3, 2006.
- (f) Incorporated by reference to the like-numbered exhibit of the Company's Registration Statement on Form S-1 (Registration No. 333-59505), as filed with the Securities and Exchange Commission on July 21, 1998.
- (g) Incorporated by reference to Exhibit 4 of the Company's Form S-8 filed with the Securities and Exchange Commission on August 3, 2004.

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- (h) Incorporated by reference to Exhibit 10.1 of the Company's Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on November 11, 2004.
- (i) Incorporated by Reference to Exhibit 10.2 of the Company's Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on November 11, 2004.
- (j) Incorporated by Reference to Exhibit 10.3 of the Company's Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on November 11, 2004.
- (k) Incorporated by Reference to Exhibit 10.2 of the Report on Form 8-K filed with the Securities and Exchange Commission on November 22, 2004.
- (l) Incorporated by Reference to Exhibit 10.2.1 of the Report on Form 8-K filed with the Securities and Exchange Commission on November 22, 2004.
- (m) Incorporated by Reference to Exhibit 10.2.2 of the Report on Form 8-K filed with the Securities and Exchange Commission on November 22, 2004.
- (n) Incorporated by Reference to Exhibit 10.1 of the Report on Form 8-K filed with the Securities and Exchange Commission on January 28, 2005.
- (o) Incorporated by Reference to Exhibit 10.1 of the Report on Form 8-K filed with the Securities and Exchange Commission on February 14, 2005.
- (p) Incorporated by Reference to Exhibit 10.1 of the Report on Form 8-K filed with the Securities and Exchange Commission on June 10, 2005.
- (q) Incorporated by Reference to Exhibit 10.1 of the Report on Form 8-K filed with the Securities and Exchange Commission on August 16, 2007.
- (r) Incorporated by Reference to Exhibit 10.1 of the Report on Form 8-K filed with the Securities and Exchange Commission on July 7, 2005.
- (s) Incorporated by Reference to Exhibit 10.2 of the Report on Form 8-K filed with the Securities and Exchange Commission on July 15, 2005.
- (t) Incorporated by Reference to Exhibit 10.1 of the Report on Form 8-K filed with the Securities and Exchange Commission on August 16, 2005.
- (u) Incorporated by Reference to Exhibit 10.1 of the Report on Form 8-K filed with the Securities and Exchange Commission on September 6, 2005.

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- (v) Incorporated by Reference as Appendix A to the Company's Proxy Statement (Commission File No. 000-25283) filed with the Securities and Exchange Commission pursuant to Section 14(a) of the Exchange Act on October 14, 2005.
- (w) Incorporated by Reference to Exhibit 10.1 of the Report on Form 8-K filed with the Securities and Exchange Commission on February 27, 2006.
- (x) Incorporated by Reference to Exhibit 10.1 of the Report on Form 8-K filed with the Securities and Exchange Commission on March 2, 2006.
- (y) Incorporated by Reference to Exhibit 10.1 of the Report on Form 8-K filed with the Securities and Exchange Commission on August 30, 2006.
- (z) Incorporated by Reference to Exhibit 10.2 of the Report on Form 8-K filed with the Securities and Exchange Commission on August 30, 2006.
- (aa) Incorporated by Reference to the like-numbered exhibit of the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission on November 28, 2006.
- (bb) Incorporated by Reference to Exhibit 10.1 of the Report on Form 8-K filed with the Securities and Exchange Commission on August 27, 2007.
- (cc) Incorporated by Reference to Exhibit 10.2 of the Report on Form 8-K filed with the Securities and Exchange Commission on August 27, 2007.

**Table of Contents****SIGNATURES AND POWER OF ATTORNEY**

Pursuant to the requirements of Section 13 or 15(d) 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.**

|   |   |   |
|---|---|---|
| By: /s/ JACK D. MASSIMINO<br><b>Jack D. Massimino</b> | By: /s/ KENNETH S. ORD<br><b>Kenneth S. Ord</b> | By: /s/ ROBERT C. OWEN<br><b>Robert C. Owen</b> |
| <b>Chief Executive Officer, Director</b>              | <b>Executive Vice President and Chief</b>       | <b>Senior Vice President and Chief</b>          |
| <b>(Principal Executive Officer)</b>                  | <b>Financial Officer</b>                        | <b>Accounting Officer</b>                       |
| <b>August 29, 2007</b>                                | <b>(Principal Financial Officer)</b>            | <b>(Principal Accounting Officer)</b>           |

August 29, 2007

August 29, 2007

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated. Each person whose signature appears below hereby authorizes and appoints Jack D. Massimino and Kenneth S. Ord, or either of them, as attorneys-in-fact and agents to execute and file with the applicable regulatory authorities any amendment to this report on his or her behalf individually and in each capacity stated below.

| <b>Signature</b>                                      | <b>Title</b>  | <b>Date</b>     |
|---|---|-----------------|
| /s/ JACK D. MASSIMINO<br><b>Jack D. Massimino</b>     | Chief Executive Officer,<br>Director<br>(Principal Executive Officer) | August 29, 2007 |
| /s/ TERRY O. HARTSHORN<br><b>Terry O. Hartshorn</b>   | Chairman of the Board   | August 29, 2007 |
| /s/ PAUL ST. PIERRE<br><b>Paul St. Pierre</b>         | Director  | August 29, 2007 |
| /s/ ALICE T. KANE<br><b>Alice T. Kane</b>             | Director  | August 29, 2007 |
| /s/ LINDA AREY SKLADANY<br><b>Linda Arey Skladany</b> | Director  | August 29, 2007 |
| /s/ HANK ADLER<br><b>Hank Adler</b>                   | Director  | August 29, 2007 |
| /s/ DAVID G. MOORE<br><b>David G. Moore</b>           | Director  | August 29, 2007 |

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/s/ ROBERT LEE

Director

August 26, 2007

**Robert Lee**

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