

CORINTHIAN COLLEGES INC

Form 10-Q

November 03, 2010

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

Washington, D.C. 20549

**FORM 10-Q**

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
FOR THE QUARTERLY PERIOD ENDED September 30, 2010

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)

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**Delaware** **33-0717312**  
(State or other jurisdiction of **(I.R.S. Employer**  
**Incorporation or organization)** **Identification No.)**  
**6 Hutton Centre Drive, Suite 400, Santa Ana, California**  
  
(Address of principal executive offices)  
  
**92707**  
  
(Zip Code)  
  
**(714) 427-3000**  
  
(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every interactive data file required to be submitted and posted pursuant to Rule 405 of Regulation S-T (section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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

Large accelerated filer  Accelerated filer

Non-accelerated filer  Smaller reporting company

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

At October 29, 2010, there were 84,382,798 shares of Common Stock of the Registrant outstanding.

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**CORINTHIAN COLLEGES, INC. AND SUBSIDIARIES**

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**For the Quarter Ended September 30, 2010**

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**Table of Contents****PART I FINANCIAL INFORMATION****Item 1. Financial Statements****CORINTHIAN COLLEGES, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED BALANCE SHEETS****(In thousands)**

	<b>September 30, 2010 (Unaudited)</b>	<b>June 30, 2010</b>
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 38,125	\$ 209,165
Accounts receivable, net of allowance for doubtful accounts of \$31,151 and \$27,533 at September 30, 2010 and June 30, 2010, respectively	109,145	95,526
Student notes receivable, net of allowance for doubtful accounts of \$14,782 and \$18,496 at September 30, 2010 and June 30, 2010, respectively	18,144	20,743
Deferred income taxes	47,593	47,591
Prepaid expenses and other current assets	66,141	64,697
Total current assets	279,148	437,722
PROPERTY AND EQUIPMENT, net	314,782	298,083
<b>OTHER ASSETS:</b>		
Goodwill, net	400,133	400,204
Other intangibles, net	186,755	189,676
Student notes receivable, net of allowance for doubtful accounts of \$48,866 and \$42,339 at September 30, 2010 and June 30, 2010, respectively	56,997	47,480
Deposits and other assets	12,002	13,211
Deferred income taxes	3,102	3,044
<b>TOTAL ASSETS</b>	<b>\$ 1,252,919</b>	<b>\$ 1,389,420</b>
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable	\$ 75,458	\$ 74,906
Accrued compensation and related liabilities	76,770	110,972
Accrued expenses	42,500	29,289
Prepaid tuition	77,106	80,889
Current portion of capital lease obligations	549	525
Current portion of long-term debt	730	730
Total current liabilities	273,113	297,311
LONG-TERM CAPITAL LEASE OBLIGATIONS, net of current portion	13,477	13,636
LONG-TERM DEBT, net of current portion	174,119	299,368
DEFERRED INCOME TAXES	22,608	22,608
OTHER LONG-TERM LIABILITIES	64,735	65,463
COMMITMENTS AND CONTINGENCIES (Note 7)		

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STOCKHOLDERS EQUITY:		
Common Stock, \$0.0001 par value:		
Common Stock, 120,000 shares authorized: 90,557 shares issued and 84,641 shares outstanding at		
September 30, 2010 and 90,386 shares issued and 88,129 shares outstanding at June 30, 2010	9	9
Additional paid-in capital	235,780	232,623
Treasury stock	(54,540)	(31,368)
Retained earnings	522,277	489,168
Accumulated other comprehensive income	1,341	602
Total stockholders equity	704,867	691,034
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	\$ 1,252,919	\$ 1,389,420

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

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

	<b>Three Months Ended September 30, 2010      2009 (Unaudited)</b>	
<b>NET REVENUES</b>	<b>\$ 501,744</b>	<b>\$ 388,471</b>
<b>OPERATING EXPENSES:</b>		
Educational services (including bad debt expense of \$27,123 and \$25,004 for the quarters ended September 30, 2010 and 2009, respectively)	285,767	215,013
General and administrative	55,718	39,464
Marketing and admissions	104,199	80,104
Total operating expenses	445,684	334,581
<b>INCOME FROM OPERATIONS</b>	<b>56,060</b>	<b>53,890</b>
Interest (income)	(233)	(300)
Interest expense	2,145	504
Other (income) expense, net	(578)	(1,159)
<b>INCOME BEFORE PROVISION FOR INCOME TAXES</b>	<b>54,726</b>	<b>54,845</b>
Provision for income taxes	21,617	21,931
<b>NET INCOME</b>	<b>\$ 33,109</b>	<b>\$ 32,914</b>
Income per common share:		
Basic	\$ 0.38	\$ 0.38
Diluted	\$ 0.38	\$ 0.37
Weighted average number of common shares outstanding:		
Basic	87,948	87,264
Diluted	88,005	88,634

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

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

	<b>Three Months Ended September 30,</b>	
	<b>2010</b>	<b>2009</b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income	\$ 33,109	\$ 32,914
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	19,825	13,954
Stock based compensation	2,712	2,719
Loss on disposal of assets	456	243
Changes in assets and liabilities:		
Accounts receivable, net	(13,554)	4,789
Student notes receivable, net	(6,918)	(5,512)
Prepaid expenses and other assets	2,062	8,397
Accounts payable	(5,862)	5,728
Accrued expenses and other liabilities	(31,396)	(20,053)
Income taxes payable	11,519	12,583
Prepaid tuition	(3,969)	24,178
Other long-term liabilities	(3,449)	721
Net cash provided by operating activities	4,535	80,661
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Capital expenditures	(33,851)	(14,265)
Net cash used in investing activities	(33,851)	(14,265)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from borrowings	220,000	8,145
Principal repayments on capital lease obligations and long-term debt	(345,646)	(14,592)
Proceeds from exercise of stock options and employee stock purchase plan	590	4,821
Purchase of treasury stock	(16,822)	
Net cash (used in) financing activities	(141,878)	(1,626)
EFFECTS OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	154	302
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(171,040)	65,072
CASH AND CASH EQUIVALENTS, beginning of period	209,165	160,276
CASH AND CASH EQUIVALENTS, end of period	\$ 38,125	\$ 225,348
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:</b>		
Cash paid during the period for:		
Income taxes	\$ 10,045	\$ 1,641
Interest paid, net of capitalized interest	\$ 1,537	\$ 553

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



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**CORINTHIAN COLLEGES, INC. AND SUBSIDIARIES**

**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**September 30, 2010**

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

Corinthian Colleges, Inc. (the Company) is one of the largest post-secondary career education companies in North America. As of September 30, 2010, the Company had 113,818 students and operated 103 schools in 25 states and 17 colleges in the province of Ontario, Canada. The Company offers a variety of diploma programs and associate's, bachelor's and master's degrees, concentrating on programs in allied health, business, technology, and criminal justice. The Company also offers exclusively online degrees, primarily in business and criminal justice.

On January 4, 2010 the Company completed its acquisition of Heald Capital, LLC, a Delaware limited liability company (Heald) for consideration of \$395 million. Heald, through its subsidiaries, operates Heald College, a regionally accredited institution that prepares students for careers in healthcare, business, legal, information technology and other growing fields, primarily through associate degree programs. Heald College operates 12 campuses and its results are included in the Condensed Consolidated Financial Statements from the date of acquisition.

Certain prior year amounts have been reclassified to conform to the current year presentation.

The accompanying unaudited condensed consolidated financial statements have been prepared by the Company pursuant to the rules and regulations of the Securities and Exchange Commission and in accordance with U.S. generally accepted accounting principles. Certain information and footnote disclosures normally included in annual financial statements have been omitted or condensed pursuant to such regulations. The Company believes the disclosures included in the unaudited condensed consolidated financial statements, when read in conjunction with the June 30, 2010 consolidated financial statements of the Company included in the Company's 2010 Annual Report on Form 10-K and notes thereto, are adequate to make the information presented not misleading. In management's opinion, the unaudited condensed consolidated financial statements reflect all adjustments, consisting solely of normal recurring adjustments, necessary to summarize fairly the consolidated financial position, results of operations, and cash flows for such periods. The results of operations for the three months ended September 30, 2010 are not necessarily indicative of the results that may be expected for the full fiscal year ending June 30, 2011.

The unaudited condensed consolidated financial statements as of September 30, 2010 and for the three months ended September 30, 2010 and 2009 and the audited condensed consolidated financial statements as of June 30, 2010 include the accounts of the Company and its subsidiaries that it directly or indirectly controls through majority ownership. All significant intercompany balances and transactions have been eliminated in consolidation.

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

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The Company estimates fair value using a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three broad levels. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3).

The carrying value of cash and cash equivalents, receivables and accounts payable approximates their fair value at September 30, 2010. In addition, the carrying value of all borrowings approximates fair value at September 30, 2010.

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

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

The table below reflects the weighted average number of common shares outstanding and the effects of dilutive securities used in computing basic and diluted net income per common share for the three months ended September 30, 2010 and 2009 (in thousands):

	<b>Three Months Ended</b>	
	<b>September 30,</b>	
	<b>2010</b>	<b>2009</b>
Basic common shares outstanding	87,948	