

Equity Research

Corinthian Colleges, Inc.

**COCO: Reassessing ASFG Loan Performance
Further Evaluation Suggests Our Default Assumptions Too High**

- In our May 5 report, we made the observation that in our estimation ASFG loans must be underperforming, defaulting at rates close to 68% rather than the 50% originally forecast. After discussions with the company and further consideration and analysis, we now believe this statement is incorrect and do not believe we have a sufficient basis to judge the eventual long-term performance of the program. Separately, we are raising our valuation assumption to \$2.50-\$3.00 to account for the surge of interest in the sector.
- The basis for our changed perspective consists of three elements: 1) our approach, which included adding the discount taken by the company to the cash recourse payments, was faulty as it fails to account for the loan payments that ultimately will come in and act as an offset; 2) a focus on the early cash payments fails to appreciate that most of the zero-payment loans go bad immediately, whereas the 100% payment loans require the life of the loan to prove themselves; and 3) the incrementally negative repayment experience of ESI, which admittedly informed our analysis, is due in part to loan servicing and product design issues that do not apply to COCO.
- We are not adjusting our estimates, as we believe a prudent perspective toward expected cash flow is the correct way in which to evaluate prospective investment in COCO shares. Neither are we adjusting our rating, as we still would like to see the company resolve the overhang resulting from its financial responsibility ratio calculation dispute with the Department of Education. However we regret our earlier characterization of the performance of the ASFG program and any unfounded alarm it may have created among investors.

Valuation Range: \$2.50 to \$3.00 from \$1.80 to \$2.50

Our valuation range of \$2.50-3.00 is derived by applying a range of discounts between 20% and 30% to the historical S&P P/E of 11.7x. The implied mean return from our range is approximately 11%. However the combination of poor visibility and high volatility suggest in our opinion that such an expected return is insufficient to recommend new positions. An increase in the rate of enrollment decline or in perceived regulatory risk, as well as failure to maintain loan covenants could upset our valuation framework.

Investment Thesis:

We are confident that the market size Corinthian serves is sufficiently large and the value proposition offered to its students sufficiently sound that the company remains viable and potentially appealing in the long term. However, its ability to respond to market pressures is constrained by the so-called 90/10 regulation which has the effect of creating a price floor for its programs and the poor credit quality of the students it typically serves which limited sources of non Title-IV financing. If the company can find a viable means of generating more cash revenue and/or finding a steady source of third-party financing for its students, then the stock could rise to P/E levels between 8.0-9.0x (20-25% discount to the S&P500 P/E). Until then, however, it is likely to remain range-bound.

Market Perform / V

Sector: Post Secondary
Overweight

Company Note

EPS	2012A	2013E		2014E	
		Curr.	Prior	Curr.	Prior
Q1 (Sep.)	\$0.00	\$0.06 A	NC	\$0.07	NC
Q2 (Dec.)	0.07	0.05 A	NC	0.06	NC
Q3 (Mar.)	0.16	0.04 A	NC	0.02	NC
Q4 (June)	0.10	0.02	NC	0.01	NC
FY	\$0.34	\$0.16	NC	\$0.16	NC
CY	\$0.32	\$0.18		\$0.33	
FY P/E	8.2x	17.5x		17.5x	
Rev.(MM)	\$1,606	\$1,593		\$1,583	

Source: Company Data, Wells Fargo Securities, LLC estimates, and Reuters
NA = Not Available, NC = No Change, NE = No Estimate, NM = Not Meaningful
V = Volatile, ♣ = Company is on the Priority Stock List

Ticker	COCO
Price (05/24/2013)	\$2.80
52-Week Range:	\$1-4
Shares Outstanding: (MM)	86.1
Market Cap.: (MM)	\$240.6
S&P 500:	1,645.71
Avg. Daily Vol.:	1,750,010
Dividend/Yield:	\$0.00/0.0%
LT Debt: (MM)	\$85.2
LT Debt/Total Cap.:	8.0%
ROE:	1.0%
3-5 Yr. Est. Growth Rate:	10.0%
CY 2013 Est. P/E-to-Growth:	1.6x
Last Reporting Date:	04/30/2013
	Before Open

Source: Company Data, Wells Fargo Securities, LLC estimates, and Reuters

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**Please see page 6 for rating definitions, important disclosures and required analyst certifications
All estimates/forecasts are as of 05/24/13 unless otherwise stated.**

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Together we'll go far



Company Description:

Corinthian Colleges provides post-secondary education to adult learners looking to acquire basic skills for entry-level employment or additional skills to change or advance their careers. The company offers diploma and degree programs to more than 90,000 students at more than 120 sites in the U.S. and Canada. Program areas include healthcare, business, IT, automotive, and criminal justice.

ASFG Loan Agreement Analysis

Corinthian has an agreement with ASFG to underwrite supplemental loans to its students to help cover the portion of tuition not covered by Federal loans and grants (up to \$775 million through June 2015). Under the agreement, a third-party bank makes supplemental loans to Corinthian students and sells them to ASFG. Corinthian pays a discount to ASFG for loans purchased and records the discount as a reduction to revenue ratably over the program length, as the related revenue is recognized. For loans on which no payment has been made for over 90 days, Corinthian is obligated to purchase the balance from ASFG.

Because the program began in Q1 2012, recourse payments have only begun to ramp. At the end of Q3, the total loans made to Corinthian students under the ASFG program were approximately \$276.1 million. To date, Corinthian has made recourse payments to ASFG for defaulted loans under the program of \$33.9 million. Of those loans eligible for recourse (i.e. made at least 90 days prior to the recourse payment,) the total amount outstanding is \$125.3 million, suggesting a to-date default rate of 27% -- still below the 50% forecasted by the company.

The cash flows dutifully reported by the company for the benefit of the SEC will have the effect of overstating the failure rate of the loans in their early stages, as most loans that default do so early. Whereas the corresponding offset in any given cohort does not come until the final stages of the loan. Therefore in theory, the portfolio will appear to perpetually underperform, until after its termination date when early defaults will cease and thus recourse payments will diminish as a percent of the total. The company remains confident based on its observations of individual cohorts and its historical data, that its assumptions remain appropriate.

In discussing the issue, COCO management stressed four points relative to why its repayment might ultimately prove to be more steady and predictable than the broader trends surrounding student loan repayment published by the New York Fed or those reported by ESI for its PEAKS loan program.

- The first is that essentially all of Corinthian's borrowers can be characterized as sub-prime and can be expected – as a group – to repay at levels far lower than most student loans. This is a function of the socio-economic conditions of a population enrolling in entry-level skill training for positions that pay ~\$14/hour. The irony is that among this population broadly, repayment rates have not deteriorated. So while student loan defaults in aggregate have spiked as a result of the weak economy, defaults among those for whom the economy is perpetually weak have not. Because Corinthian's enrollment has gating factors related to employment rates and externships, roughly comparable rates of post-graduate employment should translate into roughly comparable rates of repayment.
- The second factor relates to product design. The Corinthian loans have lower rates of interest than the PEAKS loans, require payment in school (which PEAKS does not) and include a variety of forbearance options in the case of economic hardship that temporarily reduce but do not suspend payments. All of these suggest a potentially stronger-performing loan.
- The third factor relates to servicing issues that ESI has noted. While we have been somewhat skeptical of this explanation, COCO management echoed the points made by ESI management, suggesting that the disruption in service providers can have a significant deleterious effect and that its own loan servicing has been steady and aided by its borrower education efforts.
- Borrower education was the fourth factor cited by the company to suggest relative outperformance. Corinthian has made a concerted effort to maintain a relationship with its students after they leave its schools – even with students that do not complete. Loan servicers tell us that being able to track and reach borrowers is the single biggest issue in keeping them current.

Neither our analysis nor management's explanations regarding the unique qualities of its program offer a guarantee that the program is not underperforming or that it won't underperform in the future. But we no longer believe there is any evidence or basis to conclude that it is underperforming today.

Corinthian Colleges, Inc.

	Corinthian Colleges - Income Statement (\$ in 000s)																				
	FY09A	FY10R	FY11R	Sep-11R	Dec-11R	Mar-12R	Jun-12R	FY12R	Sep-12A	Dec-12A	Mar-13A	Jun-13E	FY13E	Sep-13E	Mar-14E	Jun-14E	FY14E	CY12A	CY13E	CY14E	
Net revenues	1,307,823	1,658,002	1,794,080	398,197	392,111	407,857	394,774	1,695,472	408,560	409,720	400,167	374,705	1,893,152	399,327	404,394	404,285	385,319	1,853,296	1,620,911	1,560,593	1,616,938
Costs and expenses:																					
Educational services (ex bad debt)	647,082	812,443	951,446	222,770	232,287	224,443	922,359	232,562	234,034	230,130	215,455	900,821	222,323	228,299	230,398	218,801	900,821	923,325	897,208	896,433	
% of revenue	49.5%	49.0%	53.3%	56.8%	57.0%	56.9%	57.5%	56.8%	57.1%	57.5%	57.5%	57.3%	57.1%	56.7%	57.0%	56.8%	56.9%	57.0%	57.2%	56.1%	
y/y growth	17.1%	26.6%	17.1%	(3.7%)	(6.0%)	(2.1%)	(2.9%)	(1.1%)	(0.2%)	5.1%	(0.9%)	(4.0%)	(1.1%)	-4.6%	-2.0%	0.1%	1.6%	0.0%	-2.8%	1.3%	
Bad Debt	106,625	88,388	95,057	16,724	13,501	11,448	51,870	19,811	17,448	13,606	13,115	63,773	15,773	16,176	16,170	15,413	63,332	58,704	58,469	56,452	
% of revenue	8.2%	5.3%	5.6%	4.2%	3.4%	2.9%	3.2%	4.8%	4.3%	3.4%	3.5%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	3.6%	3.7%	3.5%	
General & administrative	135,747	192,554	205,124	46,100	45,828	39,089	44,557	175,572	42,850	42,284	41,012	167,258	42,012	43,012	44,012	45,012	174,048	168,880	167,048	177,821	
% of revenue	10.4%	11.6%	11.5%	11.8%	11.7%	9.6%	11.3%	10.9%	10.5%	10.3%	10.9%	10.5%	10.8%	10.8%	10.9%	10.9%	11.7%	10.4%	10.6%	10.6%	
y/y growth	18.1%	41.6%	6.9%	(7.3%)	(12.2%)	(0.3%)	(14.4%)	(7.7%)	(6.8%)	(7.7%)	(4.2%)	(4.7%)	(2.2%)	1.7%	7.3%	9.8%	4.1%	-9.8%	-1.7%	6.4%	
Marketing & advertising	294,728	332,629	393,882	98,476	96,604	96,807	395,268	93,736	101,818	102,794	94,371	388,719	94,882	98,088	103,036	96,273	393,257	397,203	391,113	396,559	
% of revenue	22.5%	20.1%	21.8%	25.0%	24.6%	24.5%	24.5%	24.6%	24.6%	25.7%	25.2%	24.5%	24.2%	24.2%	25.5%	25.0%	24.8%	24.9%	24.9%	24.8%	
y/y growth	6.4%	12.9%	16.9%	2.6%	(2.4%)	(2.4%)	1.6%	1.6%	3.0%	5.4%	4.1%	(2.6%)	-5.5%	-2.1%	0.2%	2.0%	-1.4%	2.0%	-1.5%	1.9%	
Impairment Charge	4,378	220,058	9,226	2,718	3,221	1,032	18,270	3,206	3,206	1,279	4,485	4,485	4,485	-	-	-	7,459	7,459	-	-	
Operating income	119,265	231,990	176,567	6,267	10,662	24,322	16,397	42,143	10,995	14,136	11,346	10,752	46,729	15,157	16,222	10,640	9,820	66,340	66,340	66,340	
% of revenue	9.1%	14.0%	9.8%	1.6%	2.7%	6.0%	4.2%	2.6%	2.6%	3.3%	2.8%	2.9%	2.9%	3.9%	4.0%	2.6%	2.5%	4.0%	4.0%	4.0%	
Interest income (expense)	(574)	(3,919)	(7,533)	(2,417)	(2,059)	(1,729)	(1,150)	(7,353)	(1,900)	(1,051)	(1,178)	(1,178)	(4,497)	(1,900)	(1,051)	(1,178)	(1,178)	(5,020)	(4,497)	(5,359)	
Other income (expense)	(1,170)	4,238	3,418	(843)	(2,207)	(3,425)	(5,059)	(11,633)	(4,245)	(6,163)	(6,352)	(6,809)	(23,569)	(4,245)	(6,163)	(6,352)	(6,809)	(18,892)	(23,569)	(23,569)	
Minority interest	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Pre-tax income	117,521	232,307	178,034	6,267	8,428	10,168	10,178	23,145	5,160	6,922	3,816	7,265	19,663	9,922	9,093	3,110	1,833	41,429	36,410	48,348	
Income tax	46,015	61,734	25,985	(3,941)	2,522	7,490	1,868	7,011	2,684	2,689	1,439	1,045	7,215	3,830	3,013	1,213	715	14,111	9,825	19,290	
Tax rate	39.2%	39.5%	31.3%	40.9%	39.2%	39.1%	18.6%	30.3%	40.0%	38.6%	37.7%	37.7%	36.7%	39.0%	39.0%	39.0%	39.0%	34.1%	38.7%	39.9%	
Net income (continuing operations)	71,506	140,573	152,049	3,006	3,904	11,678	8,290	16,144	3,098	4,233	2,377	7,222	11,448	5,991	5,495	1,897	1,118	27,317	26,585	29,058	
% of revenue	5.5%	8.5%	8.5%	0.8%	1.0%	2.9%	2.1%	1.9%	1.8%	1.0%	0.6%	1.9%	0.6%	0.7%	0.5%	0.5%	0.3%	1.7%	1.7%	1.8%	
Income tax (discontinued operations)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
EPS (Reported)	\$0.82	\$1.59	\$1.30	\$0.11	\$0.02	\$0.05	\$0.08	\$0.12	\$0.02	\$0.02	\$0.01	\$0.01	\$0.03	\$0.04	\$0.04	\$0.02	\$0.01	\$0.01	\$0.01	\$0.01	
Extraordinary items	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
EPS (Recurring)	\$0.82	\$1.59	\$1.30	\$0.11	\$0.02	\$0.05	\$0.08	\$0.12	\$0.02	\$0.02	\$0.01	\$0.01	\$0.03	\$0.04	\$0.04	\$0.02	\$0.01	\$0.01	\$0.01	\$0.01	
y/y growth	29.7%	94.7%	44.7%	9.4%	-20.3%	26.9%	-56.1%	-56.1%	9.4%	9.4%	-77.7%	-81.2%	17.6%	28.9%	-40.5%	-56.1%	1.0%	20.7%	-43.8%	83.4%	
Shares outstanding (diluted)	87,598	88,727	85,388	84,807	85,222	86,124	86,112	85,566	86,194	86,548	87,097	87,447	86,822	87,797	88,147	88,847	88,322	86,245	87,622	86,060	
% of revenue	1.6%	1.3%	3.8%	(3.8%)	1.0%	1.7%	1.6%	0.2%	1.6%	1.6%	1.1%	1.6%	1.5%	1.9%	1.6%	1.6%	1.7%	1.6%	1.6%	1.6%	
EBITDA	170,250	302,261	5,440	12,302	27,341	38,495	28,507	103,675	23,264	24,304	21,137	21,981	90,686	28,776	27,208	21,238	21,951	114,570	99,101	126,357	
% of revenue	13.0%	18.2%	0.3%	3.1%	7.0%	9.4%	7.2%	6.5%	5.7%	5.9%	5.3%	5.7%	5.7%	7.4%	6.7%	5.3%	5.7%	7.1%	7.0%	7.6%	
Free cash flow	149,152	120,902	(95,638)	42,951	74,163	47,580	(84,124)	110,570	12,982	71,000	16,223	(80,720)	39,465	14,223	66,005	17,155	(63,775)	(34,203)	143,669	61,904	
% of revenue	11.4%	7.3%	(5.4%)	10.8%	18.9%	11.7%	(13.7%)	6.9%	3.2%	17.3%	4.1%	(16.2%)	2.5%	3.7%	16.3%	4.2%	(16.6%)	(2.1%)	9.2%	3.8%	
Free cash flow per share	\$1.70	\$1.36	(\$1.12)	\$0.51	\$0.87	\$0.55	(\$0.63)	\$1.28	\$0.15	\$0.82	\$0.19	(\$0.69)	\$0.45	\$0.16	\$0.75	\$0.19	(\$0.72)	(\$0.40)	\$1.64	\$0.70	
y/y growth	(45.9%)	(20.0%)	(192.3%)	94.7%	82.7%	60.5%	(62.3%)	215.4%	10.0%	10.0%	10.0%	10.0%	64.6%	16.3%	16.3%	16.3%	16.3%	(14.4%)	(14.4%)	(14.4%)	
Enrollment Data																					
Student enrollment	80,310	97,037	91,107	90,910	93,620	91,460	91,774	92,070	88,688	87,776	83,445	83,445	87,995	88,016	88,894	87,878	84,740	91,460	86,533	88,085	
y/y growth	16.8%	20.8%	2.8%	-16.3%	-10.1%	-5.1%	1.1%	-8.0%	1.1%	-2.4%	-8.2%	-8.8%	-4.4%	-4.6%	-2.0%	0.1%	1.6%	-1.4%	-5.4%	1.8%	
New student starts	117,352	123,021	116,206	30,386	24,780	28,355	25,839	109,370	31,489	23,703	26,738	24,547	106,446	32,716	24,770	28,075	25,774	27,338	27,338	28,440	
y/y growth	17.1%	9.9%	-9.9%	-21.8%	-2.4%	0.9%	6.4%	-5.9%	3.5%	-4.4%	-5.7%	-5.0%	-2.7%	4.0%	4.8%	5.0%	5.0%	2.1%	-0.9%	4.6%	
Revenue per student	\$4,179	\$4,378	\$4,385	\$4,385	\$4,309	\$4,420	\$4,266	\$4,345	\$4,532	\$4,533	\$4,535	\$4,377	\$4,374	\$4,541	\$4,624	\$4,608	\$4,484	\$4,390	\$4,364	\$4,427	
y/y growth	6.1%	4.6%	0.2%	-1.3%	-1.2%	0.0%	-1.2%	-0.9%	1.5%	0.2%	0.6%	2.6%	3.0%	2.0%	2.0%	2.0%	2.0%	0.8%	0.9%	1.4%	
Student retention	66.9%	66.3%	67.1%	67.1%	72.6%	71.8%	70.4%	66.3%	66.3%	70.6%	68.6%	67.1%	66.2%	66.3%	66.6%	66.6%	67.1%	66.2%	66.7%	66.2%	66.2%

Source: Company reports and Wells Fargo Securities, LLC estimates

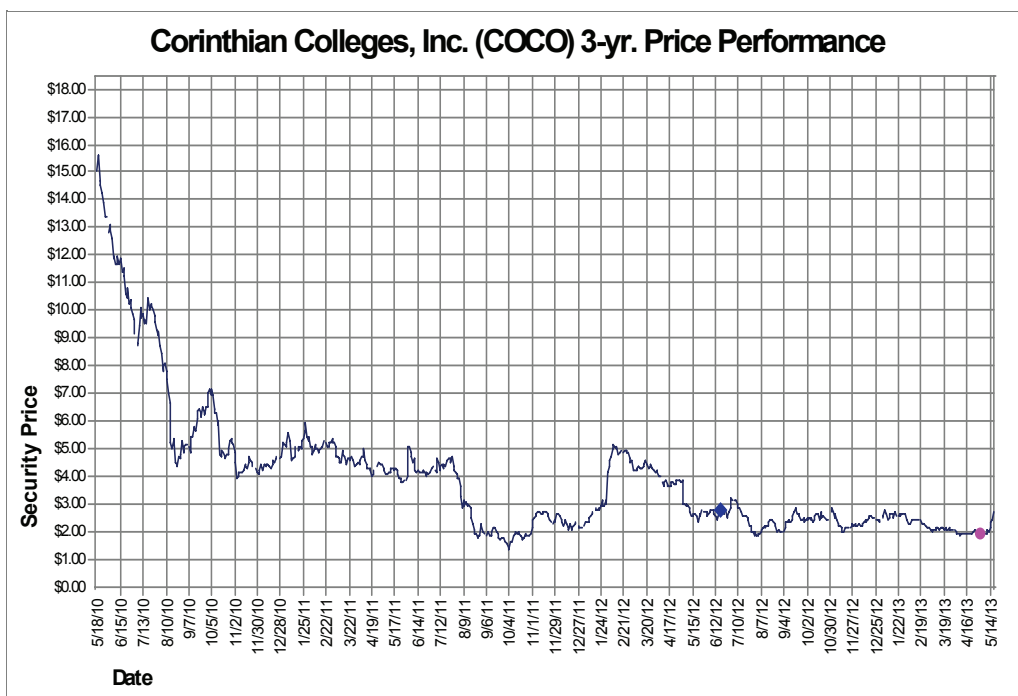
Corinthian Colleges - Balance Sheet (\$ in 000s)																							
	FY09A	FY10R	Sep-10R	Dec-10R	Mar-11R	Jun-11R	FY11R	Sep-11R	Dec-11R	Mar-12R	Jun-12A	FY12R	Sep-12A	Dec-12A	Mar-13A	Jun-13E	FY13E	Sep-13E	Dec-13E	Mar-14E	Jun-14E	FY14E	
Current Assets:																							
Cash and cash equivalents	160,276	209,419	38,125	40,890	40,290	107,430	107,430	38,592	38,418	79,578	72,525	72,525	37,603	43,633	43,899	(16,821)	(16,821)	(2,598)	63,407	80,562	16,787	16,787	
Restricted cash	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Marketable investments	65,976	95,526	109,145	95,366	85,454	168,883	168,883	96,912	61,346	69,322	96,224	96,224	141,091	75,970	81,882	91,332	91,332	134,449	74,884	82,719	93,919	93,919	
Accounts receivable	11,532	20,743	18,144	20,028	22,460	18,456	18,456	20,813	22,447	15,930	26,772	26,772	26,123	25,110	24,336	24,336	24,336	24,336	24,336	24,336	24,336	24,336	
Student notes receivable	32,369	47,591	47,593	47,598	47,603	37,883	37,883	37,877	37,879	37,881	37,242	37,242	37,242	37,261	37,254	35,349	35,349	35,507	36,770	37,628	36,350	36,350	
Deferred income taxes	38,378	64,697	66,141	66,789	57,035	88,855	88,855	83,563	98,321	113,171	112,967	112,967	97,402	101,193	106,497	108,845	108,845	92,817	99,878	107,595	109,871	109,871	
Prepaid expenses, and other current assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Other	308,551	437,722	279,148	270,671	252,842	421,697	421,697	279,757	259,411	315,882	352,607	352,607	573,333	425,213	298,978	298,939	246,120	289,591	304,354	337,907	285,343	285,343	
Property & equipment, net	227,553	286,063	314,782	323,397	333,945	331,656	331,656	323,164	312,961	289,038	251,621	251,621	241,107	239,900	228,916	222,539	222,539	212,475	206,574	200,633	194,042	194,042	
Goodwill and intangibles assets	599,480	599,480	599,480	599,480	599,480	599,480	599,480	599,480	599,480	599,480	599,480	599,480	599,480	599,480	599,480	599,480	599,480	599,480	599,480	599,480	599,480	599,480	
Student notes receivable	230,630	230,630	230,630	230,630	230,630	230,630	230,630	230,630	230,630	230,630	230,630	230,630	230,630	230,630	230,630	230,630	230,630	230,630	230,630	230,630	230,630	230,630	
Deferred income taxes	7,558	16,265	15,104	13,894	12,263	11,196	11,196	9,839	9,693	9,598	12,014	12,014	12,014	12,036	11,782	11,341	11,403	11,441	11,620	11,467	11,726	11,726	
Debits and other assets	798,871	1,389,420	1,252,919	1,059,965	1,053,025	1,204,225	1,204,225	1,057,147	1,029,818	1,052,404	1,054,513	1,054,513	1,064,513	1,060,212	996,259	996,173	937,140	974,584	997,634	1,019,074	965,193	965,193	
Total Current Assets:	2,005,653	2,973,311	2,733,113	2,218,022	2,186,666	2,222,570	2,222,570	2,049,442	3,735,063	3,735,063	2,822,758	2,822,758	2,822,758	3,093,592	3,153,510	3,253,359	2,822,758	2,822,758	2,822,758	3,093,592	3,253,359	2,822,758	2,822,758
Current Liabilities:																							
Accounts payable	39,159	74,906	75,458	51,924	47,641	74,231	74,231	53,586	53,347	52,029	24,184	24,184	74,214	69,342	73,470	23,955	23,955	72,720	71,441	76,221	27,605	27,605	
Accrued compensation and related liabilities	79,989	110,972	76,770	71,049	88,388	91,535	91,535	73,463	72,054	85,594	79,470	79,470	78,712	62,833	76,168	75,430	75,430	75,007	62,016	76,946	77,567	77,567	
Accrued expenses	13,048	29,289	42,500	30,874	24,948	20,418	20,418	25,212	38,415	44,768	41,812	41,812	34,397	32,417	24,729	39,688	39,688	32,778	31,996	24,962	40,811	40,811	
Income tax payable	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Prepaid tuition	66,656	80,889	77,106	66,951	59,579	35,128	35,128	50,407	81,885	110,527	111,129	111,129	98,772	120,670	129,000	105,480	105,480	94,122	119,101	130,318	108,467	108,467	
Current portion of capital lease obligations	474	525	549	573	601	628	628	644	661	685	710	710	4,338	4,634	5,003	5,383	5,763	7,653	7,653	7,653	7,653	7,653	
Current portion of long-term debt	1,257	730	730	729	729	730	730	730	122,042	76,295	3,399	3,399	22,072	18,927	23,702	16,803	16,803	2,605	2,605	2,605	2,605	2,605	
Liabilities held in escrow	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Total Current Liabilities:	200,563	297,311	273,113	221,802	221,866	222,570	222,570	204,942	3,735,063	3,735,063	2,822,758	2,822,758	2,822,758	3,093,592	3,153,510	3,253,359	2,822,758	2,822,758	2,822,758	3,093,592	3,253,359	2,822,758	2,822,758
Long-term capital lease, net of current portion	14,189	13,636	13,477	13,314	13,148	12,976	12,976	12,801	12,620	12,428	12,231	12,231	12,028	11,821	11,608	11,608	11,608	11,608	11,608	11,608	11,608	11,608	
Long-term debt, net of current portion	13,895	298,368	174,119	217,537	189,821	317,458	317,458	194,083	8,706	132,653	132,653	132,653	94,946	30,846	15,677	15,677	15,677	15,677	15,677	15,677	15,677	15,677	
Deferred income taxes	14,922	22,608	22,608	407	407	18,565	18,565	15,639	15,440	4,959	4,959	4,959	7,654	7,654	7,654	7,654	7,654	7,654	7,654	7,654	7,654	7,654	
Other long-term liabilities	37,614	65,463	64,735	64,734	66,596	67,489	67,489	70,293	69,909	66,960	66,967	66,967	68,243	63,009	64,648	63,591	63,591	65,031	62,190	65,309	65,392	65,392	
Total Shareholders' Equity	517,668	691,424	704,867	542,131	561,177	565,067	565,067	559,689	563,545	568,867	564,915	564,915	568,049	569,419	571,227	572,067	572,067	577,995	583,959	586,368	586,416	586,416	
Total Liabilities & Shareholders' Equity	798,871	1,389,420	1,252,919	1,059,965	1,053,025	1,204,225	1,204,225	1,057,147	1,029,818	1,052,404	1,054,513	1,054,513	1,060,212	996,259	996,173	937,140	937,140	974,584	997,634	1,019,074	965,193	965,193	
Net cash	146,381	(90,679)	(136,724)	(177,376)	(190,260)	(210,758)	(210,758)	(156,821)	(83,624)	(5,575)	(63,508)	(63,508)	(61,677)	9,082	25,617	(35,103)	(35,103)	(20,880)	45,125	62,280	(1,495)	(1,495)	
Net cash per share	\$1.67	(\$1.02)	(\$1.55)	(\$2.10)	(\$1.77)	(\$2.49)	(\$2.49)	(\$1.85)	(\$0.98)	(\$0.06)	(\$0.74)	(\$0.74)	(\$0.72)	\$0.10	\$0.29	(\$0.40)	(\$0.40)	(\$0.24)	\$0.51	\$0.70	(\$0.02)	(\$0.02)	

Source: Company reports and Wells Fargo Securities, LLC estimates

Corinthian Colleges - Cash Flow Statement (\$ in 000s)																						
	FY09A	FY10R	Sep-10R	Dec-10R	Mar-11R	Jun-11R	FY11R	Sep-11R	Dec-11R	Mar-12R	Jun-12R	FY12R	Sep-12A	Dec-12A	Mar-13A	Jun-13E	FY13E	Sep-13E	Dec-13E	Mar-14E	Jun-14E	FY14E
Cash provided by operating activities	68,760	145,971	33,109	(163,712)	16,070	3,368	(111,165)	(9,836)	1,794	4,089	(6,992)	(10,245)	1,578	(67)	(1,020)	(995)	(504)	3,328	3,384	(191)	(552)	5,949
Net income	52,155	66,035	19,825	20,145	18,533	20,086	79,589	19,332	18,566	17,998	(6,992)	73,165	17,014	16,331	16,143	18,038	67,526	17,865	17,148	16,950	18,940	70,902
Depreciation and amortization	(6,943)	(28,975)	-	(22,201)	-	24,130	1,929	-	-	-	(10,888)	(10,888)	-	-	-	1,896	1,896	(188)	(1,263)	(856)	1,275	(1,001)
Deferred income taxes	(4,701)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Tax benefit of stock options exercised	16	809	456	25	265	575	1,321	-	740	(20)	(720)	8,919	1,668	1,503	1,835	1,835	6,841	2,600	2,600	2,600	2,600	10,400
(Gain) on disposal of assets	11,776	14,004	2,712	2,120	2,892	2,765	10,279	2,037	2,526	1,930	2,428	19,025	2,446	2,446	2,446	2,446	2,446	2,600	2,600	2,600	2,600	10,400
Stock-based compensation	48,589	(29,526)	(13,554)	13,643	10,012	(82,657)	(72,552)	69,768	37,622	(9,862)	(28,906)	69,422	(42,172)	65,159	(6,666)	(9,450)	7,871	(43,117)	59,566	(7,835)	(11,201)	(2,587)
Accounts receivable	(24,336)	(21,561)	(6,918)	(9,401)	(10,517)	16,315	(10,521)	(15,170)	(5,248)	(3,701)	(1,854)	(25,873)	2,470	2,956	3,117	-	8,543	(4,000)	(4,000)	(4,000)	(4,000)	(16,000)
Student notes receivable	(16,204)	(16,204)	2,062	694	11,346	(32,430)	(19,328)	3,336	(15,697)	(12,699)	(811)	(25,671)	15,606	(3,897)	(4,198)	(410)	7,013	13,990	(7,249)	(7,536)	(2,555)	(3,350)
Income tax refund receivable	5,430	21,905	(5,862)	(17,080)	(4,391)	30,144	2,811	(19,580)	(515)	35,802	(63,458)	(47,751)	48,889	(4,641)	4,511	(49,515)	(756)	48,766	(1,280)	6,780	(50,616)	3,650
Accounts payable	34,918	16,298	(31,396)	586	11,198	(1,402)	(21,014)	(12,552)	11,636	(11,287)	28,711	16,128	(9,107)	(14,905)	3,901	14,219	(5,892)	(7,332)	(13,773)	7,916	16,449	3,261
Accrued expenses	24	9,173	11,519	(18,053)	1	(2,722)	(9,256)	1	(1)	(1)	-	-	-	-	-	-	-	-	-	-	-	-
Income tax payable	22,242	10,437	(3,969)	(10,802)	(7,360)	(24,508)	(46,639)	16,015	31,274	30,070	9,659	87,618	(17,827)	22,127	6,005	(23,520)	(13,215)	(11,357)	24,979	11,217	(21,851)	2,988
Prepaid tuition	(4,656)	13,924	(3,449)	(63)	1,727	902	(853)	(6,984)	119	1,625	4,257	(953)	(182)	(2,781)	1,005	(1,057)	(3,015)	1,439	(2,841)	3,119	84	1,801
Other long term liabilities	198,877	204,290	4,535	(638)	49,955	(88,540)	15,022	54,113	83,075	98,801	(42,823)	152,766	20,391	81,711	26,708	(48,959)	79,851	22,024	77,252	28,184	(51,426)	76,013
Net cash/financing activities	(347,299)	(35,466)	(33,851)	(31,951)	(23,080)	(21,768)	(10,660)	(11,162)	(8,912)	(10,921)	(11,201)	(42,195)	(11,613)	1	(10,485)	(11,761)	(11,612)	(7,800)	(11,247)	(11,009)	(12,349)	(42,405)
Acquisitions of schools and colleges, net	731	-	-	-	-	-	-	-	-	39,297	-	39,297	-	-	-	-	(40,386)	-	-	-	-	-
Capital expenditures	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Proceeds from other	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Sale of marketable securities	(48,794)	(430,787)	(33,851)	(31,951)	(23,080)	(21,768)	(10,660)	(11,162)	(8,912)	28,376	(11,201)	(2,899)	(19,042)	(10,710)	(10,485)	(11,761)	(11,612)	(7,800)	(11,247)	(11,009)	(12,349)	(42,405)
Net cash/financing activities	(48,794)	(430,787)	(33,851)	(31,951)	(23,080)	(21,768)	(10,660)	(11,162)	(8,912)	28,376	(11,201)	(2,899)	(19,042)	(10,710)	(10,485)	(11,761)	(11,612)	(7,800)	(11,247)	(11,009)	(12,349)	(42,405)
Cash provided by financing activities	12,924	512,052	220,000	64,676	22,994	149,480	457,150	43,185	19,925	(296,096)	47,930	(185,156)	55,900	(3,607)	(4,229)	-	48,064	-	-	-	-	-
Proceeds from borrowings	(58,991)	(249,898)	(345,646)	(21,785)	(51,132)	(22,080)	(449,643)	(155,755)	(94,394)	249,569	-	(82,878)	(92,878)	(61,298)	(12,212)	-	(186,330)	-	-	-	-	-
Principal repayments on long-term debt	19,246	11,480	590	-	829	-	1,419	671	-	766	(710)	727	520	-	583	-	1,103	-	-	-	-	-
Purchase of treasury stock	(21,420)	275,244	(141,878)	34,713	(27,309)	127,400	17,926	(11,139)	(7,469)	(45,861)	47,220	(184,429)	(38,458)	(64,906)	(15,858)	-	(117,223)	-	-	-	-	-
Exercise of stock options	(191)	395	154	287	234	48	723	(470)	132	144	(149)	(343)	188	(188)	24	-	24	-	-	-	-	-
Effects of Exchange Rate	49,143	(171,040)	2,511	(500)	67,140	87,140	(101,989)	(68,838)	(174)	41,160	(7,853)	(34,905)	(34,922)	5,907	389	(67,720)	(68,346)	14,223	66,005	17,155	(63,775)	33,608
Net increase (decrease) in cash/eq	32,004	160,276	208,419	36,379	40,880	40,280	209,419	107,430	38,392	38,818	19,976	107,430	72,525	37,663	43,510	43,889	72,525	(10,621)	(2,386)	63,407	60,562	(10,821)
Cash at end of period	160,428	209,419	38,379	40,280	40,280	107,430	107,430	38,392	38,392	79,378	72,829	174,596	237,655	237,655	237,655	237,655	237,655	(2,689)	63,407	60,562	16,752	16,752
Cash at beginning of period	128,424	149,152	(29,316)	(32,489)	26,475	(60,309)	(95,638)	42,951	74,163	47,580	(54,124)	110,570	12,962	71,000	16,223	(60,720)	39,465	14,223	66,005	17,155	(63,775)	33,608
Free cash flow	\$170	\$136	(\$0.33)	(\$0.38)	\$0.31	(\$0.71)	(\$1.12)	\$0.51	\$0.87	\$0.55	(\$0.63)	\$1.29	\$0.15	\$0.82	\$0.19	(\$0.69)	\$0.45	\$0.16	\$0.75	\$0.19	(\$0.72)	\$0.38
Free cash flow per share	-	-	-14.5%	-21.4%	-55.6%	66.0%	-192.3%	252.0%	-326.0%	76.8%	-11.7%	-215.4%	-70.3%	-5.7%	-66.3%	-10.5%	-64.8%	7.7%	-8.7%	4.1%	3.4%	-16.3%
Free cash flow per share	-	-	-14.5%	-21.4%	-55.6%	66.0%	-192.3%	252.0%	-326.0%	76.8%	-11.7%	-215.4%	-70.3%	-5.7%	-66.3%	-10.5%	-64.8%	7.7%	-8.7%	4.1%	3.4%	-16.3%
Free cash flow per share	-	-	-14.5%	-21.4%	-55.6%	66.0%	-192.3%	252.0%	-326.0%	76.8%	-11.7%	-215.4%	-70.3%	-5.7%	-66.3%	-10.5%	-64.8%	7.7%	-8.7%	4.1%	3.4%	-16.3%

Source: Company reports and Wells Fargo Securities, LLC estimates

Required Disclosures



	Date	Publication Price (\$)	Rating Code	Val. Rng. Low	Val. Rng. High	Close Price (\$)
	6/19/2012		Urden			
◆	6/19/2012	2.78	2	2.25	3.00	2.78
●	5/1/2013	1.94	2	1.80	2.50	1.93

Source: Wells Fargo Securities, LLC estimates and Reuters data

Symbol Key

- ▼ Rating Downgrade
- ▲ Rating Upgrade
- Valuation Range Change
- ◆ Initiation, Resumption, Drop or Suspend
- Analyst Change
- Split Adjustment

Rating Code Key

- 1 Outperform/Buy
- 2 Market Perform/Hold
- 3 Underperform/Sell
- SR Suspended
- NR Not Rated
- NE No Estimate

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