

**Corinthian Colleges Inc.**  
**COCO - \$16.28 – NasdaqGS**

**Recommendation: Sell**

**Reasons For Sell Recommendation**

- 65 times trailing earnings.
- Sallie Mae and others no longer providing “serial” subprime student loans.
- 75% of COCO's loan portfolio was subprime in 2007.
- Students “graduate” with large debt loads and poor employment opportunities in high paying jobs to pay off the loans.
- “Safe” play in a poor economy offset by continued credit crunch.
- Defaults increased to 9.1% of revenue in the 2008 4<sup>th</sup> quarter vs 6.2% the prior year.
- In July 2007, paid a \$6.5 million fine and closed 11 programs at 9 California schools, in a settlement with the CA Attorney general.
- Barred for the next 18 months from offering specific courses at those 9 campuses.

**Financials as of 9-5-2008**

52 – Week Low 1-22-2008	\$6.45	Book Value/Shr (mrq)	\$
52 – Week high 12-5-2007	\$18.25	Diluted Earnings/Shr (ttm)	\$0.25
52- Week Change	-14.53%	Diluted Earnings/Shr mrq)	-\$0.21
Daily Volume Avg.	1,817,010	Sales/Shr (ttm)	\$12.57
Market Capitalization	\$1.16B	Cash/Shr (mrq)	\$0.375
Shares Outstanding	85.40M	Price/Book (mrq)	NA
Float	83.88M	Price/Earnings (ttm)	65.06
Profit Margin (mrq)	1.99%	Price/Sales (ttm)	1.06
Operating Margin (ttm)	4.81%	Revenue (ttm)	\$1.07B
Return on Assets (ttm)	4.45%	EBITDA (ttm)	\$96.15B
Return on Equity (ttm)	8.14%	Debt/Equity (mrq)	0.184
Operating Cash Flow (ttm)	\$13.61M	Shares Short 8-12-08	14.11M
Leveraged Free Cash Flow (ttm)	-\$29.21	% of Float Short	16.6%
Total Cash (mrq)	\$32.0M	Short Ratio	7.3

(ttm) = Trailing 12 months, (mrq) = Most recent quarter, M = Millions, B = Billions, m = Thousands

## Business Description 10K

Our Company is **one of the largest for-profit post-secondary education companies in the United States and Canada**, serving the large and growing segment of the population seeking to acquire career-oriented education. As of June 30, 2008, we had a **student enrollment of 69,200, and operated 89 schools in 24 states, and 17 schools in the province of Ontario, Canada**. 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). Our training program areas include healthcare, criminal justice, mechanical, trades, business and information technology.

**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 74 colleges (net of closures, discontinued operations, and consolidations) and we have opened 32 branch campuses.**

### Operating Strategy

Key elements of our operating strategy include the following:

*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. 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 help students complete their programs, graduate and achieve their career goals. We use a curriculum development team comprised of campus representatives, corporate program directors and textbook publishers. For each program area, each campus also uses advisory boards comprised of local business professionals, to help ensure that our curricula meet employer requirements. We also maintain full-time career services personnel at our schools who are responsible for helping our students obtain employment. Career services identifies prospective employers, helps students prepare resumes, conducts practice interviews, establishes externship programs and tracks students' placement success on a monthly basis.

*Create an Effective Learning Environment*. We view our students as customers and seek to provide a supportive learning environment where student satisfaction and success are 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 offer support programs such as on-campus advising and tutoring. 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 schools offer programs in industries which are growing and offer ample career opportunities, including healthcare, criminal justice, mechanical, construction trades, business and information technology. Our geographic strategy is to build a strong competitive position in attractive and growing markets where we can operate efficiently and benefit from favorable demographic trends.

*Standardize Key Business Processes.* To help ensure operational efficiency and a consistent student experience across our system of campuses, we are currently standardizing key business processes. Thus far, we have implemented a standard admissions and student finance process and we are in the process of implementing a new student information system.

*Centralize Key Functions.* In order to capitalize on the experience of our senior management team and to encourage best practices, we have established a divisional management organization consisting of local school administrators, regional vice presidents of operations and admissions, and division presidents and general managers. Local and divisional 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 general managers 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.

## Analysis

Corinthian Colleges is a for profit secondary education company. They charge students high tuition prices and promise them good job opportunities after graduation. In reality, they focus on students from poor financial backgrounds. Tuition can go as high as \$32,000. That is equivalent to many fine well known universities. Yet, many of COCO's students can only find menial jobs after graduation, such as telemarketing. These jobs, do not pay high enough salaries in order for their graduates to pay off their school related debt. The Internet is filled with horror stories from many of these graduates. Students have told stories about being promised small class sizes with personal attention only to find large class sizes, with missing lab supplies and no personal attention. Billing problems are another student concern. Students get billed for classes that they have dropped and can not get such issues resolved quickly.

Here is a complaint from a former student Sherri from Brampton, Ontario, Canada of Everest College and CDI College owned by Corinthian: <http://www.ripoffreport.com/reports/0/336/RipOff0336581.htm>

“I applied for the medical laboratory technician program. First off, they said there wouldn't be any more than 12 - 14 people in the class. There were 36 people. The lab wasn't even finished being built when we started our lab work. We didn't have the supplies we needed. We sat around for the first 2 weeks hardly doing anything because we didn't have any supplies. One of the work tables didn't have a top on it for the first 3 months. We didn't have ECG [beds](#) until 4 months in, and even then, it took another 2 months to get the curtains.

They promised that we would have a qualified instructor in the lab with us, but because they crammed so many people into one class, they had to divide us into two groups. While one group was in the lab, the other was in the classroom, and then at lunchtime, we'd switch. We had our instructor in the classroom, but

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we had a 'teaching assistant' (she wasn't qualified to be a teaching assistant) in the lab with us, who turned out to be one of his former students who just graduated one month before we started our course. She didn't teach us anything, just sat there gossiping all day.

Our instructor started trying to get placements for us at the beginning of the course. Even by the end, some people still didn't have work placements. We graduated in June of 2005. I didn't get my placement until August/September of 2005. Nearly 3 months later. Our work placement was supposed to be the last 2 weeks of the course, meaning the last 2 weeks of June.

They also promised that they would help us [find jobs](#) when we were done, but they didn't.

It's now nearly 3 years later, and I've never gotten a job in my field since going to CDI. They said that their employment rate within 6 months after graduation was 70%, but that was clearly a lie, because none of the other 36 people in my class have gotten a job in their field, either. I hear similar stories from other CDI graduates. No one can [get a job](#) after going to CDI. A CDI diploma isn't worth the paper it's printed on. CDI has a bad reputation with employers.

Here is a very good assessment of COCO's schools from a former student:<http://www.ripoffreport.com/reports/0/333/RipOff0333082.htm>

“Some lessons Ive learned after having been screwed by a 'business/career/trade' college.

- 1)If the school is Private, stay away from it
- 2)If the school is for-profit, stay away from it
- 3)If the school offers people the ability to finish a course offered at a public college or university in less than half the time it normally takes, stay away from it
- 4)Do the credits transfer to other PUBLIC colleges and Provincially funded universities? if not, stay away from it
- 5)are there multiple posts about the institution on educational forums and on the [internet](#) in general that are negative in nature, if so, stay away from it
- 6)Does the school offer [job placement](#) assistance, guaranteed high paying jobs after graduation,scouts/employers from companies that come to the school to look for grads,a 70-90% graduate employment rate and a whole bunch of other really over-the-top gurantees?!,if so,stay away from it
- 7)Does the school have multiple 'campuses' spread out all over the country?if so, stay away from it
- 8)Is the school on the third floor of a scummy building? if so, stay away from it
- 9)Does the school seem to change names every couple of years? If so, stay away from it
- 10)Does the school go through a constant change of instructors and management? If so, stay away from it
- 11)Does the school employ ex-grads as teachers?, if so, stay away from it
- 12)DO they advertise on [tv](#), have a 1-800 number and do they have glossy print ads? If so, stay away from it

-If I wouldve had a list similar to this before I enrolled in that institution, I wouldve thought twice about making said decision

Bottom line:DO YOUR RESEARCH!!

Curtis  
Brampton, Ontario  
Canada

There are dozens and dozens of similar complaints about these schools. Do a Google search and you will find them.

COCO is trading at 65 times trailing earnings. That is twice to three times its competitors Apollo-APOL (PE 32), Devry- DV (PE 32), and ITT Education Services-ESI (PE 21). Yet it faces the same problems as they do. **Students access to loans to attend these schools.**

### **Vanishing Loan Providers**

On January 22, 2008 Corinthian reported in a regulatory filing with the Securities and Exchange Commission that it was informed by Sallie MAE, College Loan Corp. and Student Loan Express that they **will no longer make private loans available for subprime borrowers** effective March 1, 2008. Corinthian said that 75% of its private loan portfolio was subprime in 2007 and that Sallie Mae provided 90% of its private loans in the U.S.

To offset this pullback from providing loans to its students Corinthian “implemented several changes to offset the loss of Sallie Mae private loans for students with subprime credit profiles. **We established a new company sponsored student lending program, ACCESS, and thus far, have arranged financing for the vast majority of students through Title IV, cash payments, ACCESS and other resources.**”

This is a major change in their business model and it is not change for the good. We believe that this change to now providing loans to its subprime students, now makes them more like a bank than a secondary education company. The recent history of companies loaning money to subprime credits has not been very good. We are surprised that the market has not recognized this as COCO's stock price is at a recent high.

**75% of COCO's private loan portfolio is subprime as of 2007.** This is a very high percentage. Since those other companies are no longer providing subprime loans, it stands to reason that COCO's subprime exposure is about to go up over 75%. The only thing worse than an increasing subprime exposure is the rising defaults that go along with it.

Indeed, in the 2008 fourth quarter that ended June 30, 2008. Corinthian said **student loan defaults increased almost 50% to 9.1% of revenue from 6.2% in the prior year.** This is an alarming and huge increase in just one year. And the other loan providers have only just started to not provide loans. We believe that there is going to be a huge increase in defaults going forward given the weakening employment picture.

Secondary education stocks are sometimes seen as a “safe” play in a weak economy as more out of work people go back to school for job training and such. We believe that this is generally true but that the increase in defaults for providing loans for its subprime students trumps this benefit.

In the Internet age it is much easier for prospective students to find out about all the complaints against this company. After you read several of them you begin to see how this company operates.

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On August 26, 2008 COCO released its 2008 fourth quarter earnings. COCO reported a loss of \$0.01 per share or \$620,000 on \$274 million in revenue vs a loss of \$0.10 per share or \$8.756 million on \$231.62 million in revenue a year ago. Excluding charges for discontinued operations, income from continuing operations was \$4.8 million, or 6 cents. Shares traded down to almost \$13 on this news. For the full year 2008, COCO earned \$0.25 per share or \$21.3 million on \$1.07 billion in revenue.

For the 2009 first quarter, COCO expects earnings of \$0.06-\$0.08 on revenue of \$285 million to \$290 million. Analysts had been expecting earnings of 8 cents and revenue of \$283.3 million. For the full year 2009, COCO expects earnings of \$0.58-\$0.63 per share on revenue of \$1.21 billion-\$1.25 billion. Analysts are expecting \$0.55 on \$1.22 billion in revenue.

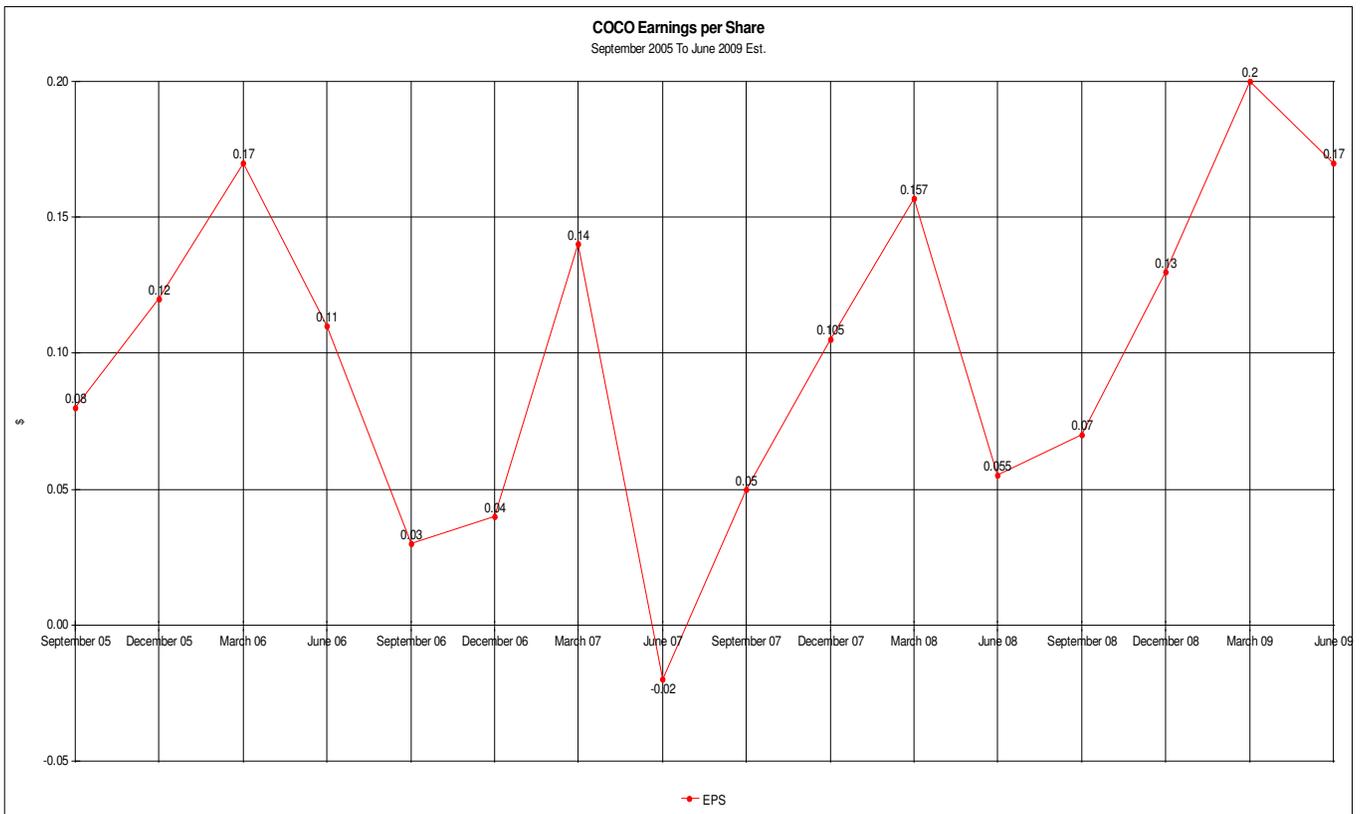
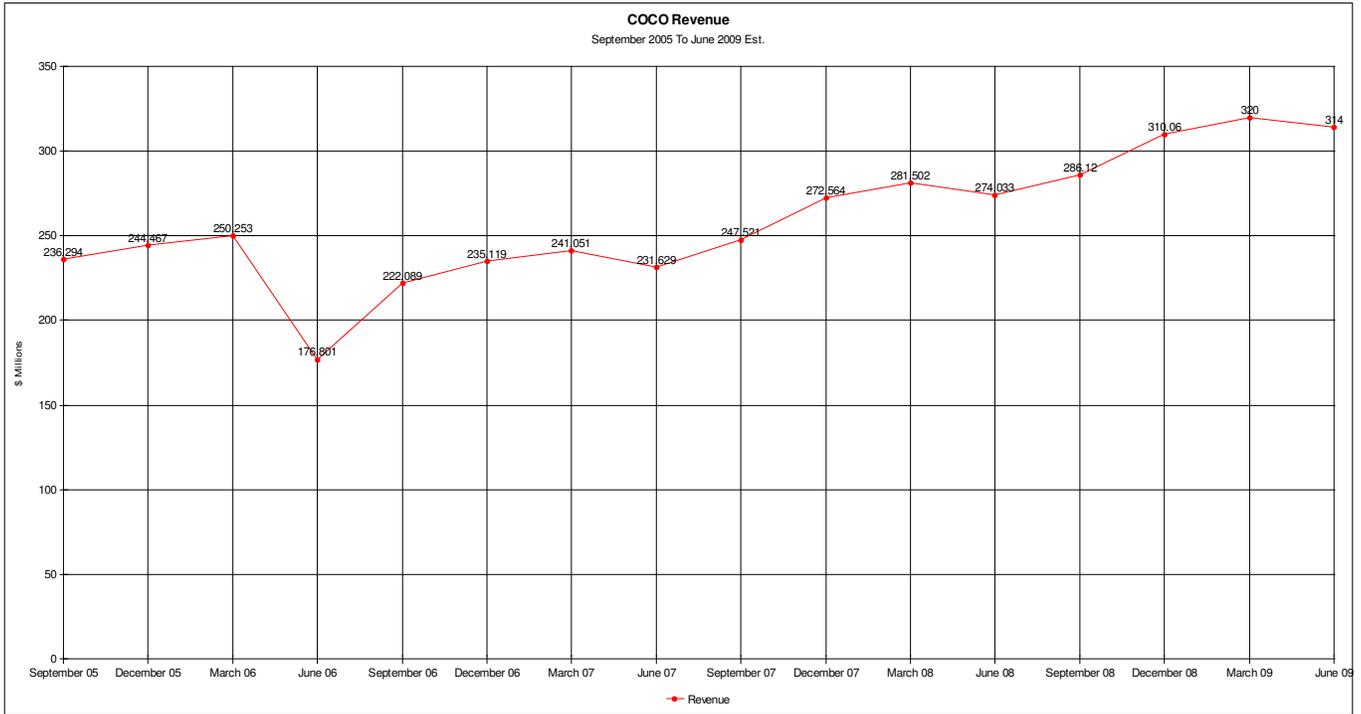
Student enrollment increased 13%, up 7,879 to 69,211 students for the 2008 fiscal year and for the fourth quarter of 2008 enrollments increased 11.5%, up 2,372 to 23,015 students.

COCO reported a loss from discontinued operations of \$5.4 million from several closed or sold branches in Canada, Boston, Oakland, Atlanta, Everett, WA and Lynwood, WA.

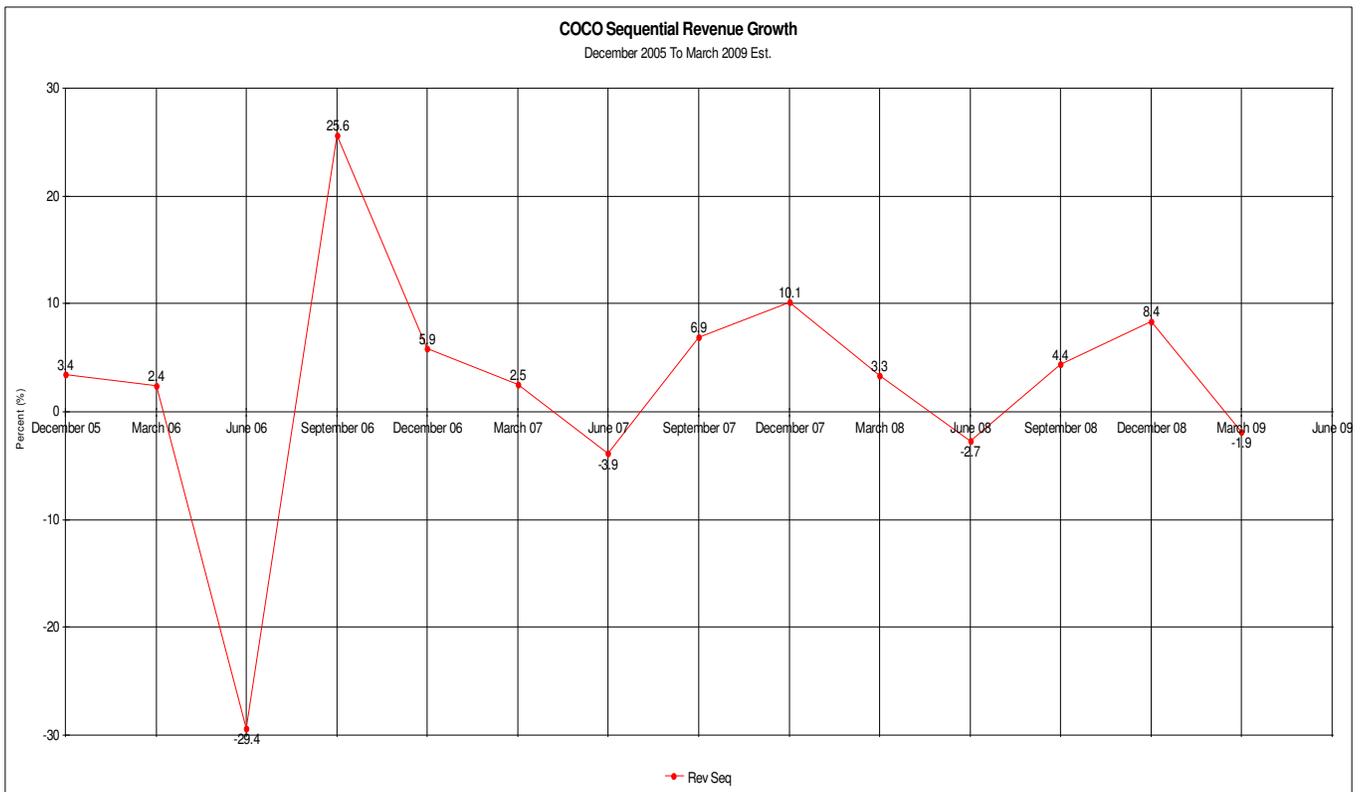
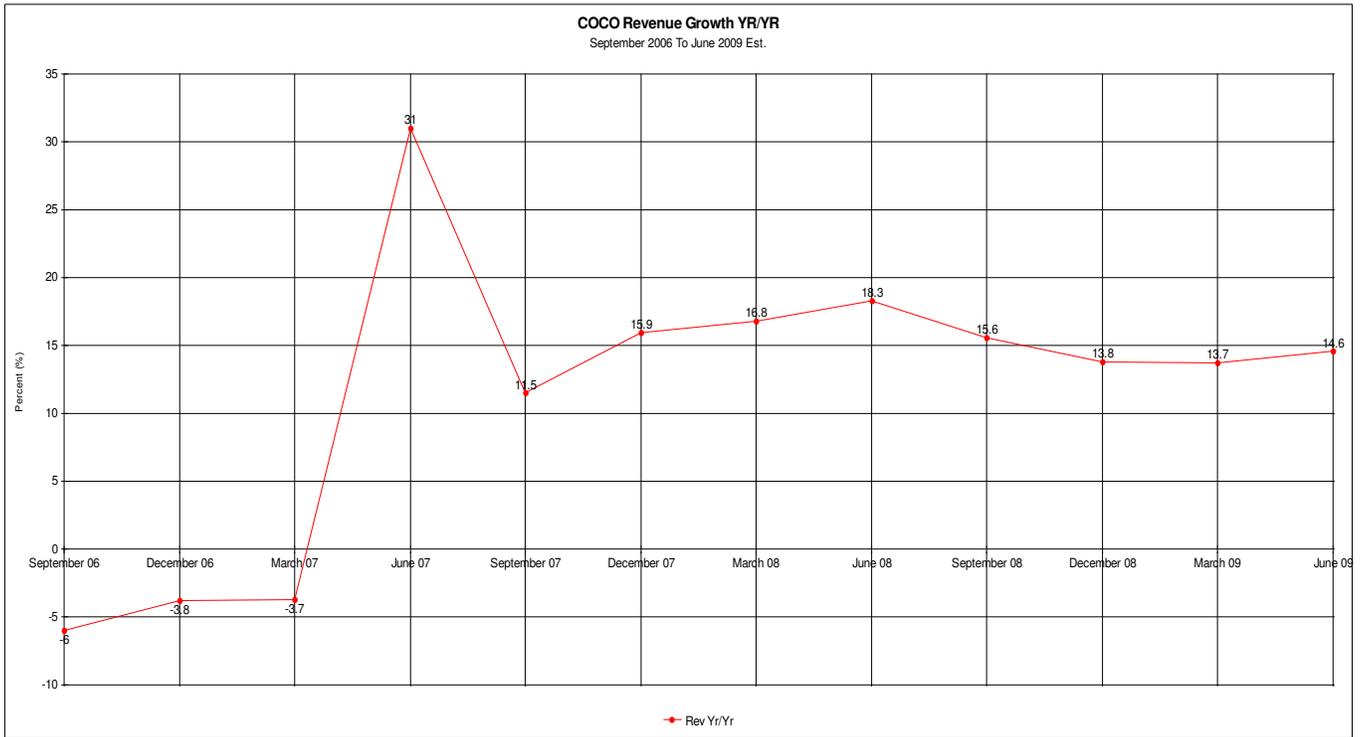
## Legal Issues

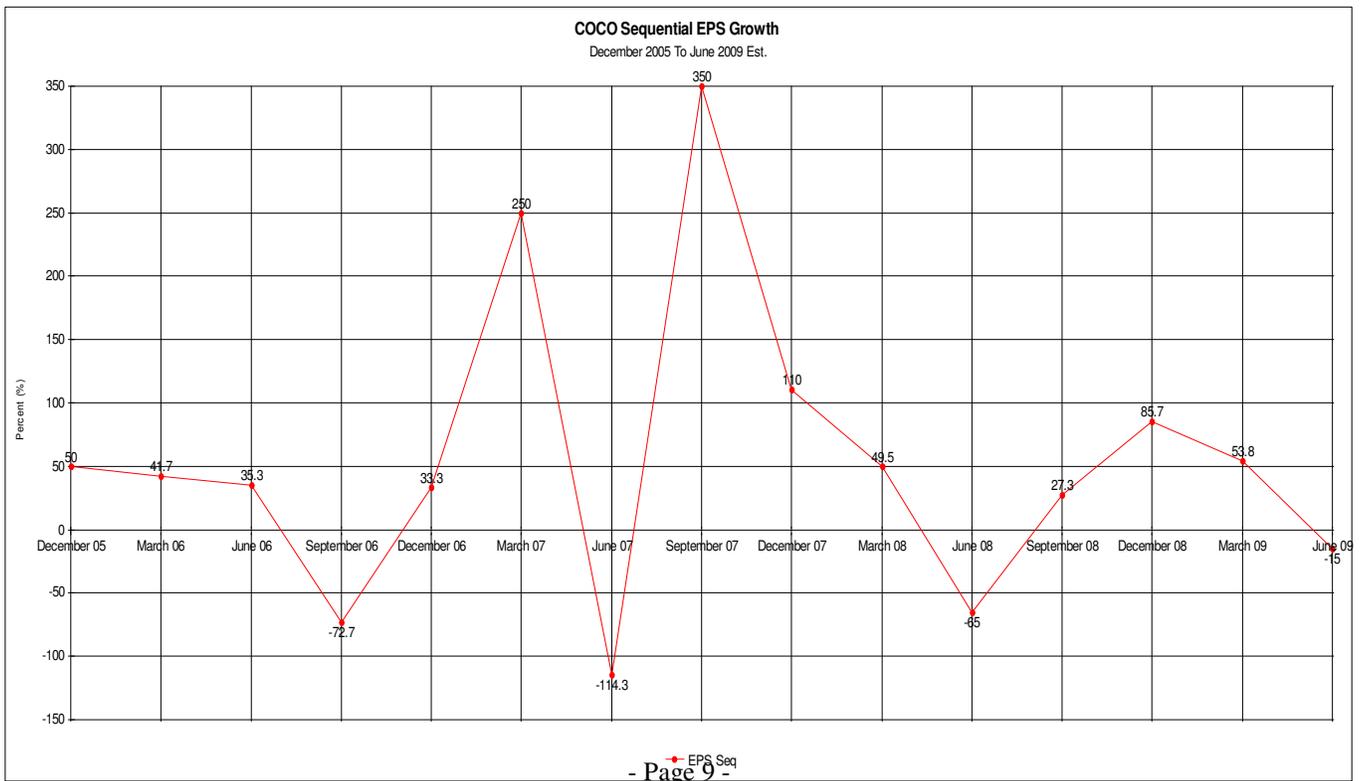
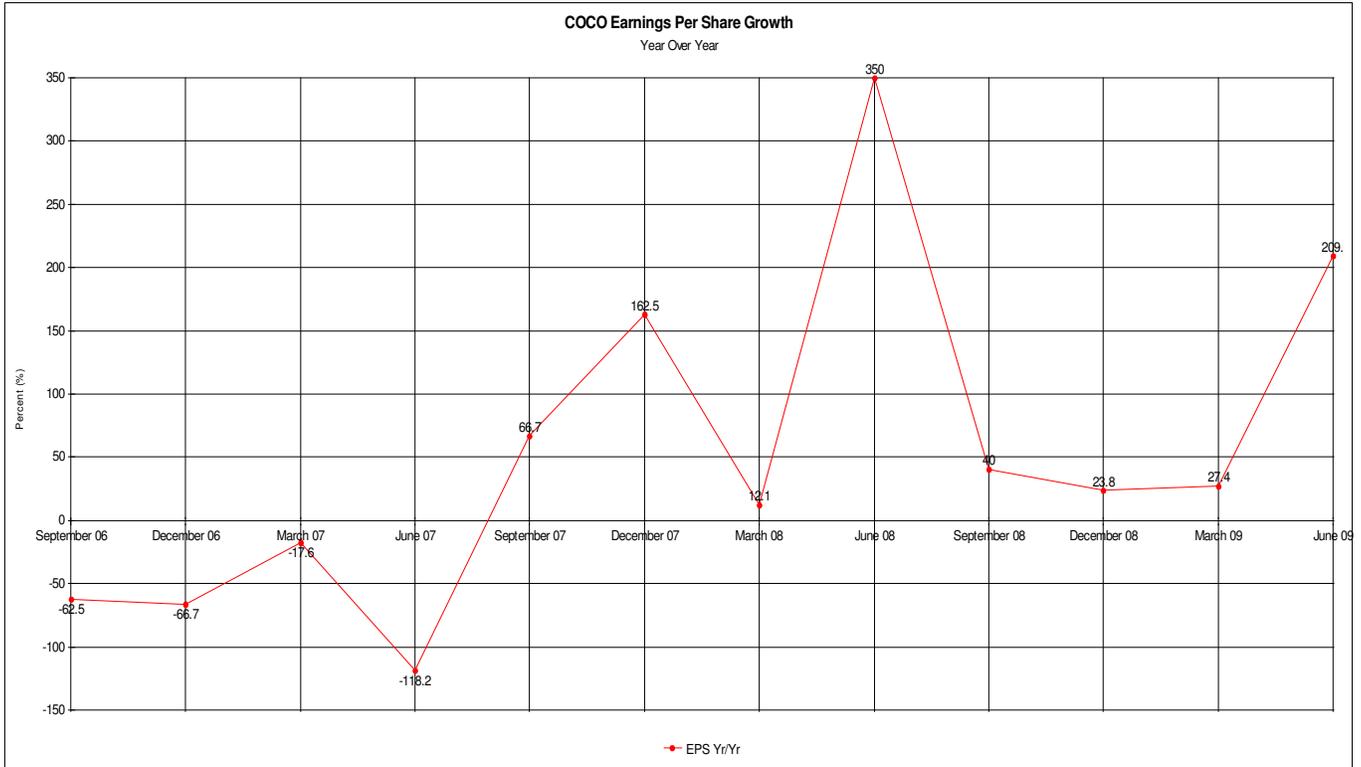
**In July 2007, COCO entered into a settlement with the California Attorney general by paying a \$6.5 million fine and closing 11 programs at 9 campuses.** In October 2007, the Department of Education exercised a search warrant at its Ft. Lauderdale branch. After reading dozens of complaints from former students on the Internet it is easy to see why COCO is a target of investigations. A flurry of investigations and continued subprime and general credit tightness is not bullish for COCO. **COCO is now barred for the next 18 months from offering specific courses at those 9 campuses.** When is the last time that you have heard that Harvard has been barred from offering courses?

On August 18, 2008 Lehman brothers reiterated an "Overweight" rating and raised their price target from \$16 to \$18. \$18 is only 10% above today's stock price. We think that this is a time to sell COCO. Our price target is \$10 or less within 12 months.



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