

June 19, 2014

COCO-NASDAQ--Market Perform (2) / V

Post Secondary

## COCO: Department Of Ed Intensifies Pressure On Company

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**Sector Rating: Post Secondary, Overweight**

COCO disclosed that it has received a number of requests from the Department of Education (ED) for a variety of student-specific data, including placement rates. In its 8K, the company suggested that the requests have required a material amount of resources and management attention and that there is some level of disagreement between the company and ED regarding the quality and speed of COCO's responsiveness. The implication of this announcement is that this effort could have an adverse impact on COCO's business. The company also disclosed that ED had placed the company on heightened cash monitoring and placed an additional 21-day hold on the disbursement of funds, which it expects to place a material burden on the company's cash flow. The company is seeking outside capital to provide relief from this burden but indicated that it may not be successful in this effort.

In January 2001, the Department of Education exercised comparable discretion to place Computer Learning Center on delayed Title IV and demanded \$187 million return of funds with which it found disbursement issues. In the process, the Department precipitated the bankruptcy and closure of an accredited vocational school with thousands of currently-enrolled students. The backlash in Congress at the time in hearings was severe. Congress excoriated the Department for overstepping its oversight role and harming students in the process. Our conversations with former Department of Education staff members suggest that the experience with CLCX weighed heavily on the Department. This in turn has informed our own belief that the Department's concerns about protecting the educational experience of students would prevent the Department from forcibly precipitating such an event again.

However, with Corinthian's announcement today, it appears that the sentiment inside the Department may have shifted, such that skepticism toward the company and its student outcomes may in fact outweigh a competing desire to prevent their disenfranchisement in the event of the company's closure. At the March quarter, Corinthian served approximately 75,000 students.

**Corinthian Colleges, Inc. (COCO-NASDAQ)**

**Price as of 6/19/2014: \$0.30**

**FY 14 EPS: \$0.09**

**FY 15 EPS: \$0.27**

**Shares Out.: 86.1 MM**

**Market Cap.: \$26.12 MM**

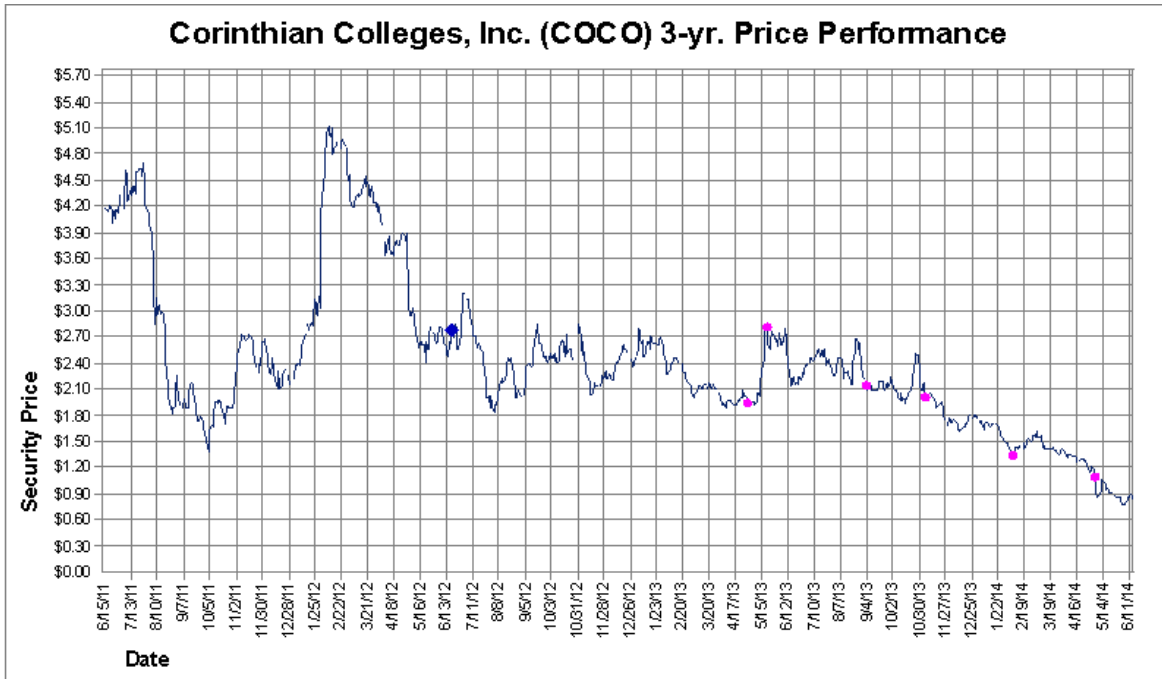
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Date	Publication Price (\$)	Rating Code	Val. Rng. Low	Val. Rng. High	Close Price (\$)
6/19/2012		Urduan			
◆ 6/19/2012	2.78	2	2.25	3.00	2.78
● 5/1/2013	1.94	2	1.80	2.50	1.93
● 5/2/2013	2.80	2	2.50	3.00	2.80
● 9/5/2013	2.08	2	2.00	2.50	2.13
● 11/6/2013	2.00	2	1.50	2.50	1.99
● 2/7/2014	1.30	2	1.00	2.00	1.32
● 5/6/2014	1.01	2	.75	1.25	1.08

Source: Wells Fargo Securities, LLC estimates and Reuters data

#### Symbol Key

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

#### Rating Code Key

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

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- 2) No part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by me in this research report.

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**COCO:** An increase in the rate of enrollment decline or in perceived regulatory risk, resulting from additional state suits could alter our framework.

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#### **SECTOR RATING**

**O = Overweight:** Industry expected to outperform the relevant broad market benchmark over the next 12 months.

**M = Market Weight:** Industry expected to perform in-line with the relevant broad market benchmark over the next 12 months.

**U = Underweight:** Industry expected to underperform the relevant broad market benchmark over the next 12 months.

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**V =** A stock is defined as volatile if the stock price has fluctuated by +/-20% or greater in at least 8 of the past 24 months or if the analyst expects significant volatility. All IPO stocks are automatically rated volatile within the first 24 months of trading.

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