CORINTHIAN COLLEGES INC
Form 10-Q
February 02, 2012
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

FOR THE QUARTERLY PERIOD ENDED December 31, 2011

OR

o **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	**33-0717312**
(State or other jurisdiction of Incorporation or organization)	(I.R.S. Employer 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 x No o

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 x No o

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 o	Accelerated filer x
Non-accelerated filer o	Smaller reporting company o

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

At January 27, 2012, there were 84,893,163 shares of Common Stock of the Registrant outstanding.

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CORINTHIAN COLLEGES, INC. AND SUBSIDIARIES

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements

CORINTHIAN COLLEGES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands)

	December 31, 2011 (Unaudited)	June 30, 2011
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 38,418	$ 107,430
Accounts receivable, net of allowance for doubtful accounts of $19,609 and $26,500 at December 31, 2011 and June 30, 2011, respectively	61,346	168,883
Student notes receivable, net of allowance for doubtful accounts of $19,264 and $18,633 at December 31, 2011 and June 30, 2011, respectively	22,447	18,456
Deferred income taxes	37,879	37,883
Prepaid expenses and other current assets	99,321	88,855
Total current assets	259,411	421,507
PROPERTY AND EQUIPMENT, net	312,951	331,858
OTHER ASSETS:		
Goodwill, net	197,875	197,875
Other intangibles, net	174,821	183,149
Student notes receivable, net of allowance for doubtful accounts of $65,478 and $59,213 at December 31, 2011 and June 30, 2011, respectively	75,077	58,650
Deposits and other assets	6,105	7,402
Deferred income taxes	3,578	3,784
TOTAL ASSETS	$ 1,029,818	$ 1,204,225
LIABILITIES AND STOCKHOLDERS EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 53,347	$ 74,231
Accrued compensation and related liabilities	72,054	91,535
Accrued expenses	38,415	20,418
Prepaid tuition	81,885	35,128
Current portion of capital lease obligations	661	628
Current portion of long-term debt	122,042	730
Total current liabilities	368,404	222,670
LONG-TERM CAPITAL LEASE OBLIGATIONS, net of current portion	12,620	12,976
LONG-TERM DEBT, net of current portion		317,458
DEFERRED INCOME TAXES	15,440	18,565
OTHER LONG-TERM LIABILITIES	69,809	67,489
COMMITMENTS AND CONTINGENCIES (Note 9)		
STOCKHOLDERS EQUITY:		
Common Stock, $0.0001 par value:		

Common Stock, 120,000 shares authorized: 91,067 shares issued and 84,893 shares outstanding at December 31, 2011 and 90,786 shares issued and 84,612 shares outstanding at June 30, 2011		9		9
Additional paid-in capital		247,021		241,882
Treasury stock		(56,368)		(56,368)
Retained earnings		370,163		378,003
Accumulated other comprehensive income		2,720		1,541
Total stockholders equity		563,545		565,067
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	$	1,029,818	$	1,204,225

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

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CORINTHIAN COLLEGES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share data)

	Three Months Ended December 31,		Six Months Ended December 31,	
	2011 (Unaudited)	2010 (Unaudited)	2011 (Unaudited)	2010 (Unaudited)
NET REVENUES	$ 415,454	$ 481,711	$ 829,496	$ 982,119
OPERATING EXPENSES:				
Educational services (including bad debt expense of $14,572 and $31,551 for the three months ended December 31, 2011 and 2010, respectively: and $32,610 and $58,629 for the six months ended December 31, 2011 and 2010, respectively)	255,617	288,571	521,293	573,165
General and administrative	45,826	54,016	91,925	109,733
Marketing and admissions	104,016	106,044	209,253	209,922
Impairment, facility closing and severance charges	2,718	205,989	12,584	205,989
Total operating expenses	408,177	654,620	835,055	1,098,809
INCOME (LOSS) FROM OPERATIONS	7,277	(172,909)	(5,559)	(116,690)
Interest (income)	(748)	(183)	(907)	(410)
Interest expense	2,804	2,018	5,380	4,162
Other expense (income), net	2,205	(1,229)	3,149	(1,807)
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE PROVISION (BENEFIT) FOR INCOME TAXES	3,016	(173,515)	(13,181)	(118,635)
Provision (benefit) for income taxes	1,222	(9,980)	(5,339)	11,673
INCOME (LOSS) FROM CONTINUING OPERATIONS	1,794	(163,535)	(7,842)	(130,308)
LOSS FROM DISCONTINUED OPERATIONS, net of tax benefit of $81 and $116 for the three and six months ended December 31, 2010, respectively.		(177)		(295)
NET INCOME (LOSS)	$ 1,794	$ (163,712)	$ (7,842)	$ (130,603)
Income (loss) from continuing operations	$ 0.02	$ (1.94)	$ (0.09)	$ (1.52)
Loss from discontinued operations				
Net income (loss)	$ 0.02	$ (1.94)	$ (0.09)	$ (1.52)
INCOME (LOSS) PER SHARE DILUTED:				
Income (loss) from continuing operations	$ 0.02	$ (1.94)	$ (0.09)	$ (1.52)
Loss from discontinued operations				
Net income (loss)	$ 0.02	$ (1.94)	$ (0.09)	$ (1.52)
Weighted average number of common shares outstanding:				
Basic	84,868	84,390	84,838	86,169

Diluted	85,222	84,390	84,838	86,169

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

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CORINTHIAN COLLEGES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

	Six Months Ended December 31,	
	2011 (Unaudited)	**2010 (Unaudited)**
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$ (7,842)	$ (130,603)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	38,388	39,970
Stock based compensation	4,563	4,832
Deferred Income taxes		(22,201)
Loss on disposal of assets	740	481
Impairment charges	7,715	203,561
Changes in assets and liabilities:		
Accounts receivable, net	107,390	89
Student notes receivable, net	(20,418)	(16,319)
Prepaid expenses and other assets	(12,361)	2,756
Accounts payable	(20,095)	(22,942)
Accrued expenses and other liabilities	(1,316)	(30,810)
Income taxes payable		(6,534)
Prepaid tuition	47,289	(14,771)
Other long-term liabilities	(6,865)	(3,512)
Net cash provided by operating activities	137,188	3,997
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(20,074)	(65,802)
Net cash used in investing activities	(20,074)	(65,802)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from borrowings	63,110	284,676
Principal repayments on long-term debt and capital lease obligations	(258,960)	(367,431)
Proceeds from borrowing under student notes receivable sale agreement, net	9,391	
Proceeds from exercise of stock options and employee stock purchase plan	671	590
Purchase of treasury stock		(25,000)
Net cash used in financing activities	(185,788)	(107,165)
EFFECTS OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	(338)	441
NET DECREASE IN CASH AND CASH EQUIVALENTS	(69,012)	(168,529)
CASH AND CASH EQUIVALENTS, beginning of period	107,430	209,419
CASH AND CASH EQUIVALENTS, end of period	$ 38,418	$ 40,890
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid during the period for:		
Income taxes	$ 9,598	$ 49,559
Interest paid, net of capitalized interest	$ 3,171	$ 3,790

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

December 31, 2011

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 December 31, 2011, the Company had 94,860 students and operated 107 schools in 26 states and 16 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.

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, 2011 consolidated financial statements of the Company included in the Company s 2011 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 and six months ended December 31, 2011 are not necessarily indicative of the results that may be expected for the full fiscal year ending June 30, 2012.

The unaudited condensed consolidated financial statements as of December 31, 2011 and for the three and six months ended December 31, 2011 and 2010 and the audited condensed consolidated financial statements as of June 30, 2011 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.

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 December 31, 2011. In addition, the carrying value of all borrowings approximates fair value at December 31, 2011. The student notes receivable, net balances are presented within current and non-current assets on the consolidated balance sheets. It is not practicable to estimate the fair value of these financial instruments, since observable market data is not readily available, and no reasonable estimation methodology exists.

Note 2 Impairment and Severance Charges

During the first quarter of fiscal 2012, the Company considered whether any indicators of impairment existed at the balance sheet date. Consequently, the Company performed an interim impairment test on goodwill and other indefinite lived intangible assets. The Company believes that continued regulatory uncertainties, and the potential impact of new regulations, particularly regulations regarding gainful employment, have had a sustained negative impact on Company s stock price and current fair value. While the results of the interim impairment test did not indicate an impairment of goodwill, it did indicate that the fair value of certain intangible assets related to the WyoTech schools were impaired. The estimated fair values of WyoTech s trade names and accreditation fell below their carrying values of $14.0 million and $3.3 million, respectively, primarily due to the decline in market capitalization and the associated increase in the discount rate assumption compared to June 30, 2011. As a result, the Company recorded an impairment charge of $7.7 million, which reduced the carrying value of WyoTech s trade names to $8.6 million and accreditation to $1.0 million.

The Company used the relief from royalty method to estimate the fair value of trade names. Under the relief from royalty method, estimated royalty rates were selected and applied to the revenue stream generated by trade names in order to estimate the potential value of the asset, assuming that trade names would be licenses to a third-party. For WyoTech, the Company assumes a royalty rate of 2.25% based upon comparable licensing transactions, a discount rate of 35.7%, a tax rate of 39% and a terminal growth rate value of 1.5%.

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The Company used the Greenfield method in valuing WyoTech s accreditation. The Greenfield method estimates fair value as the difference between the present value of cash flows generated under a current as is scenario and the present value of cash flows generated under a Greenfield scenario. The current as is scenario derives value from cash flows projected from 2012 to 2014, with revenue growth rates ranging from 4.8% to 7.4% and stabilizing at 1.5% in 2015 and a discount rate of 35.7%. The Greenfield scenario derives value from projected cash flows based on a theoretical re-building of the total locations attributed to WyoTech s accreditation. The significant assumptions for the Greenfield scenario include estimated revenue growth ranging from 26.9% to 114.8% from 2012 to 2015 and a discount rate of 35.7%. The present value associated with the Greenfield scenario was subtracted from the present value of the current as is scenario.

At December 31, 2011, the remaining goodwill of $197.9 million relates to the Heald reporting unit, which was acquired in January 2010. Since the acquisition, Heald has continued to meet or exceed all operating projections including but not limited to revenues and cash flow targets. However, the September 30, 2011 fair value of Heald exceeded carrying value by less than 5%. Accordingly, any adverse change to the Heald operating results or projections or negative changes to the Company s WACC or other assumptions used to estimate fair value could result in impairment during future periods.

At December 31, 2011 the Company considered if there were indicators of impairment that would require an interim impairment test for goodwill and other non amortizable intangible assets at that date and concluded that no such test was necessary. The Company will perform its required annual impairment test for goodwill and other non amortizable intangible assets as of June 30, 2012.

Should the Company s stock price remain depressed or decline further, the Company could incur additional impairment charges to write-down all or a portion of its goodwill and other intangible assets. Additionally, the fair value measure of accounting for financial instruments establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value. Level 3 is defined as unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions. The implied fair value of goodwill and other intangible assets was determined using Level 3 inputs included in the Company s discounted cash flow valuation method.

Additionally, the Company incurred and paid severance in the three and six months ending December 31, 2011 of $2.7 million and $4.9 million, respectively.

Note 3 Discontinued Operations

During fiscal year 2011, the Company completed the teach-out of its Fife, WA and Toronto (Central), Ontario campuses. Accordingly, the results of operations of the campuses are reflected as discontinued operations in the Company s condensed consolidated statements of operations for all prior periods presented. All amounts related to discontinued operations are not material to the consolidated financial statements. There were no discontinued operations for the three and six months ended December 31, 2011.

Note 4 Student Receivables

Historically, the Company had developed several loan programs with origination and servicing providers such as Sallie Mae for students with low credit scores who otherwise would not qualify for loans. These loan programs required that the Company pay a discount fee to the

origination and servicing providers of the loans as a reserve against future defaults on these loans. The Company has historically referred to these types of loans as discount loans, since the Company incurred a portion of the default risk related to these student loans by taking a discount on the disbursement. By accepting a reduced payment for these discounted loans from the servicing providers, the Company was not at risk for the amounts agreed to by the service providers and was not entitled to any proceeds collected by the service providers in excess of this amount. Therefore the Company had recorded this discount as a reduction to revenue.

In fiscal 2008, the Company was informed by Sallie Mae and two other origination and servicing providers that they would no longer make private loans available for students who present higher credit risks (i.e. subprime borrowers). In the face of this change in policy, the Company created a new lending program in the fourth quarter of fiscal 2008 with a different origination and servicing provider, Genesis Lending Services, Inc. (Genesis), which specializes in subprime credit. Under this Genesis program the Company paid a discount to the origination and servicing provider for any loans purchased by Genesis and recorded the discount as a reduction to revenue. Under this program the Company then had both the right and an obligation to acquire the related loan, except in certain limited circumstances where Genesis did not comply with the terms of the agreement. Since the Company initiated the Genesis program, the Company acquired all of the loans that were originated. Therefore, the Company is exposed to any credit defaults by students but retains all amounts collected from the students under this program.

On June 29, 2011, the Company entered into a loan origination agreement with ASFG, LLC (ASFG) for the purpose of creating a new private education discount loan program for the Company s students. Under the loan origination agreement, ASFG has agreed to fund new student loans through June 2013. Under this agreement, Genesis will make private education loans to eligible students and, subsequently, sell those loans to ASFG or its designee. During the second quarter of fiscal 2012 the Company completed the transition from the Genesis discount loan program to the ASFG discount loan program. The Company estimates loans funded under the Genesis discount loan program, net of refunds, have been approximately $7.0 million and $48.4 million for the three and six months ended December 31, 2011, respectively. The Company estimates loans funded under the ASFG program, net of estimated refunds, have been approximately $36.7 million and $37.4 million for the three and six months ended December 31, 2011, respectively.

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This ASFG loan program has characteristics similar to the Company s previous discount loan programs. As with the Company s previous discount loan program, under this ASFG program the Company will pay a discount to ASFG for any loans purchased by ASFG and record the discount as a reduction to revenue over the period of instruction. However, unlike the Genesis discount loan program, under this ASFG discount program the Company has no right or obligation to acquire the related loan upon origination. Pursuant to a backup loan purchase agreement entered into in connection with the loan origination agreement, the Company will be obligated to purchase any student loans for which no payment has been made for over 90 days. The Company applies historical loan performance experience to estimate and record this loan recourse obligation on a gross basis by recording both an asset and liability equal to the estimated risk upon funding. The asset is recorded within prepaid expenses and will be recognized as a reduction to revenue over the period of instruction. The recourse liability is recorded within accrued expenses. Upon recourse the Company will repurchase any loans at the amount advanced by ASFG net of any discount paid to ASFG, less any principal payments collected by ASFG. The purchase price will be recorded as an increase to notes and a reduction to the recourse liability. The recourse liability related to the notes at December 31, 2011 was $6.0 million. Under this backup loan purchase agreement, the Company s maximum obligation (including the initial discount payment) could be equal to the face amount of loans originated under this loan program, although the Company expects its ultimate risk under this loan program to be substantially similar to the risks it faces under its Genesis discount loan program.

During the first quarter of fiscal 2012, the Company sold student loans with a face value of $16.8 million to ASFG, on a recourse basis. The recourse provisions of this sale prevent the Company from derecognizing the underlying student loans sold. As of December 31, 2011, the Company received an advance of $10.1 million related to the sale, which has been recorded as a long-term other liability on the Consolidated Condensed Balance Sheet and presented as proceeds from borrowings under student notes receivable sale within financing activities in the Statement of Cash Flow. The remaining $6.7 million of purchase price will be paid to the Company as ASFG receives student principal payments in excess of the advance. The long-term other liability and underlying student loans sold will be derecognized as ASFG receives principal payments. As of December 31, 2011 ASFG had collected approximately $0.7 million of principal payments related to the $16.8 million of notes sold. As of December 31, 2011, the remaining obligation is approximately $9.4 million.

Student notes receivable represent loans that have maturity dates that generally range between 12 to 60 months from the loan origination date but can have terms as long as 15 years depending on amounts borrowed. The interest rate charged on the Genesis notes purchased by the Company was at a fixed rate of 6.8% with an origination fee of 1%. Notes purchased by ASFG from Genesis have market driven interest rates. Included in the consolidated balance sheet at December 31, 2011 and June 30, 2011 is $97.5 million and $77.1 million of notes receivable, respectively.

		December 31, 2011		**June 30, 2011**
		(In thousands)		
Accounts receivable:				
Accounts receivable, Gross	$	80,955	$	195,383
Less allowance for doubtful accounts		(19,609)		(26,500)
Accounts receivable, Net	$	61,346	$	168,883
Student notes receivable:				
Student notes receivable, Gross	$	182,266	$	154,952
Less allowance for doubtful accounts		(84,742)		(77,846)
Student notes receivable, Net	$	97,524	$	77,106

The decrease in accounts receivable at December 31, 2011 compared to June 30, 2011 was primarily due to the Company not collecting approximately $87.0 million of Title IV funds as of June 30, 2011 (which was subsequently collected in July 2011).

The Company monitors the credit quality of its portfolio using proprietary forecasting, which relies heavily on credit information and credit scores provided by third-party credit bureaus. These proprietary forecasting models are also based on impairment trending, delinquency

trending, and population trending. The loan reserve model is reviewed annually during the fourth quarter or earlier in the year upon the occurrence of certain events or substantive changes in circumstances that indicate a refinement of the model is warranted. Delinquency is the main factor of determining if a loan is impaired, as loans are charged off after 270 days delinquency. Once a loan is impaired, interest no longer accrues. The income and fees earned on impaired loans was immaterial during the three months and six months ended December 31, 2011 and 2010. In the six months ended December 31, 2011 and 2010, the Company has charged-off $38.0 million and $28.4 million, respectively, of Genesis notes net of recoveries. The charge-off is recorded as a reduction to notes receivable and a reduction to the corresponding notes receivable allowance.

	Three Months Ended December 31,		**Six Months Ended December 31,**	
	2011 (Unaudited)	**2010 (Unaudited)**	**2011 (Unaudited)**	**2010 (Unaudited)**
Allowance for doubtful accounts				
Accounts receivable:				
Beginning allowance for doubtful accounts	$ 20,289	$ 31,151	$ 26,500	$ 27,533
Charged to statement of operations	14,572	31,551	32,610	58,629
Deductions	(15,252)	(26,623)	(39,501)	(50,083)
Ending allowance for doubtful accounts	19,609	36,079	19,609	36,079
Student notes receivable:				
Beginning allowance for doubtful accounts	$ 79,403	$ 63,648	$ 77,846	$ 60,835
Charged to statement of operations	27,026	16,181	44,916	30,346
Deductions	(21,687)	(17,078)	(38,020)	(28,430)
Ending allowance for doubtful accounts	84,742	62,751	84,742	62,751

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The effect of an increase in the student notes receivable allowance of 3% of the Company s outstanding earned notes receivable from 46.5% to 49.5% or $84.7 million to $90.2 million would result in a decrease in pre-tax income of $5.5 million as of December 31, 2011. Recoveries for all periods presented are not material.

Although the Company analyzes past due receivables, it is not practical to provide an aging of non-current student receivable balances as a result of the methodology utilized in determining the earned student receivable balances. Student receivables are recognized on the Company s consolidated balance sheets as they are earned over the course of a student s program and/or term, and therefore cash collections are not applied against specifically dated transactions.

Generally, a student accounts receivable balance is written off once it reaches greater than 180 days past due.

Included within the Consolidated Statement of Operations, under the caption Other expense (income), for the three months and six months ended December 31, 2011, there was net other expense of $2.4 million and $2.7 million, associated with the student notes programs, respectively. For the three and six months ended December 31, 2010, there was net other income of $1.2 million and $1.8 million, associated with the Genesis notes program, respectively.

Genesis Program

The net other expense (income) primarily reflects the interest income, loan origination fees, and costs related to servicing loans. The Company defers and recognizes both the loan origination income and direct loan origination costs as an adjustment to the yield over the life of the related loan. All other lending-related costs, including costs related to servicing fees are charged to expense as incurred.

ASFG Program

The net other expense (income) primarily reflects the program structuring fees, management fees, and other fees charged by ASFG. The Company defers and recognizes program structuring and management fees over the program length. All other fees are charged to expense as incurred.

Note 5 Debt and Capital Lease Obligations

As of December 31, 2011, long-term debt and capital lease obligations consisted of the following:

	December 31, 2011 (unaudited)		June 30, 2011
	(In thousands)		
Credit facility obligations, with interest at 3.7% per annum	107,319	$	303,100
Mortgage facility obligations, with interest at 4.0% per annum	14,723		15,088
Capital lease obligations	13,281		13,604