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14 SUPERIOR COURT OF THE STATE OF CALIFORNIA
15 FOR THE COUNTY OF ORANGE
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17
18 IN RE CORINTHIAN COLLEGES, INC.,
19 SHAREHOLDER DERIVATIVE
LITIGATION

CASE NO.: 06CC000140
DEPT.: CX 101
JUDGE: HON. DAVID VELASQUEZ

AMENDED CONSOLIDATED
SHAREHOLDER DERIVATIVE
COMPLAINT FOR:

- 20
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22 1) ACCOUNTING;
23 2) BREACH OF FIDUCIARY DUTIES
AND/OR AIDING AND ABETTING;
24
25 3) UNJUST ENRICHMENT; AND
26 4) RECISSION;

1 Lead Plaintiffs Frank Adolf and Bernice Gunkel, by the undersigned attorneys, submit this Amended
2 Consolidated Shareholder Derivative Complaint (the “Complaint”) against the Individual
3 Defendants (as defined herein).

4 **NATURE OF THE ACTION**

5
6 1. This is a shareholder’s derivative action brought for the benefit of nominal defendant
7 Corinthian Colleges, Inc. (“Corinthian” or the “Company”) against certain members of its Board of
8 Directors (the “Board”) and certain of its current and former executive officers seeking to remedy
9 Individual Defendants’ violations of state law, including breaches of fiduciary duties and/or aiding and
10 abetting and unjust enrichment.

11 2. On September 6, 2006, the United States Senate Finance Committee Chairman, Senator
12 Chuck Grassley, stated: “[Options backdating] is behavior that, to put it bluntly, is disgusting and
13 repulsive. It is behavior that ignores the concept of an ‘honest day’s work for an honest day’s pay’ and
14 replaces it with a phrase that we hear all too often today, ‘I’m going to get mine.’ . . . [S]hareholders and
15 rank-and-file employees were ripped off by senior executives who rigged stock option programs –
16 through a process called ‘back-dating’ – to further enrich themselves. And as we have found far too
17 often in corporation scandals of recent years, boards of directors were either asleep at the switch, or in
18 some cases, willing accomplices themselves. . . .”

19
20 3. Deputy Attorney General Paul J. McNulty has described the practice of stock option
21 backdating, “as a brazen abuse of corporate power to artificially inflate the salaries of corporate
22 wrongdoers at the expense of shareholders,” and said “for some of those companies that have now
23 disclosed backdated grants, corporate reputations have been tarnished and shareholder value has
24 diminished substantially. . . .”

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26 4. On June 18, 2006, in an article titled, “Options Scandal Brewing in Corporate World,”
27 Securities and Exchange Commission (“SEC”) Chairman Christopher Cox was quoted, saying
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1 “[Backdating options] isn’t a question about ‘Whoops, I may have (accidentally) crossed a line here
2 It’s a question of knowingly betting on a race that’s already been run.”

3 5. On May 26, 2006, *Forbes*, in an article titled, “The Next Big Scandal,” quoted Former
4 SEC Chairman Harvey L. Pitt, saying “What’s so terrible about backdating options grants? For one
5 thing, it likely renders a company’s proxy materials false and misleading. Proxies typically indicate that
6 options are granted at fair market value. But if the grant is backdated, the options value isn’t fair – at
7 least not from the vantage point of the company and its shareholders.”

9 6. As alleged in detail herein, from 1999 to 2006 (the “Relevant Period”), the Individual
10 Defendants engaged in a scheme and wrongful course of business whereby the Individual Defendants
11 diverted millions of dollars of corporate assets to the Option Recipient Defendants (as defined herein)
12 via the manipulation of grant dates, and the associated documentation, of stock options granted to
13 Corinthian insiders. Each of the Individual Defendants participated in the concealment of the option
14 backdating scheme complained of herein and/or refused to pursue the Company’s legal rights to require
15 certain of the Option Recipient Defendants to disgorge the millions of dollars in illicitly obtained
16 incentive compensation and insider trading proceeds diverted to them.

18 7. From 1999 to 2002, Corinthian’s officers and directors were issued stock option awards
19 as a form of compensation. Typically, stock options granted to officers or directors permit the option
20 recipient to purchase company stock at the “exercise price” or fair market value of the stock on the date
21 the option is granted. The option recipient may purchase company stock at the exercise price, after the
22 option grant becomes exercisable and before the option grant expires, regardless of the selling price at
23 the time the option is exercised.

25 8. During the Relevant Period, the Individual Defendants engaged in a scheme and course of
26 conduct designed to manipulate Corinthian stock option grant dates so as to secretly maximize profits to
27 the Option Recipient Defendants at the expense of the Company and its shareholders. As a result, the
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1 Option Recipient Defendants received millions of dollars in excessive compensation and illegal insider
2 trading proceeds as a result of this backdating scheme. The Individual Defendants caused Corinthian to
3 issue false financial reports to shareholders, exposing the Company to substantial investigative costs and
4 massive potential liability.

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6 9. The Individual Defendants misrepresented facts presented in the Company's proxy
7 statements soliciting action by shareholders, and in documents filed with the SEC, specifically, quarterly
8 and year-end reports. Throughout the Relevant Period, notwithstanding their knowing and intentional
9 backdating of stock option grants to reflect lower exercise prices than the fair market value of the stock
10 on the grant date, the Individual Defendants falsely represented in its SEC filings that the Company,
11 through its stock option plans, issued stock options at an amount equal to "the closing price of the stock
12 on the Composite Tape, as published in the Western Edition of The Wall Street Journal, of the principal
13 national securities exchange on which the stock is so listed or admitted to trade, on such date."

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15 10. Furthermore, because Corinthian had not taken a compensation expense of the backdated
16 options required by Accounting Principles Board Opinion No. 25 ("APB 25"), Corinthian's reported
17 earnings and expenses were false and misleading and not in compliance with Generally Accepted
18 Accounting Principles ("GAAP"). Thus, by falsifying the date on which options were granted, the
19 Individual Defendants materially understated Corinthian's expenses, overstated its income and falsely
20 represented that it had not incurred any expenses for option grants.

21
22 **CORINTHIAN BEGINS TO DISCLOSE THE MISCONDUCT**

23 11. On July 12, 2006, Corinthian announced that the Company had begun a voluntary internal
24 review of its historic stock option grants.

25 12. On August 18, 2006, the Company announced that the SEC was conducting an informal
26 inquiry into the Company's practices, procedures and disclosures related to its historic stock option
27 grants.
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1 13. On September 18, 2005, Michael P. Berry, a former member of Corinthian’s Board,
2 resigned from the Company’s Board. In his letter of resignation dated September 13, 2005, which was
3 attached to the Company’s Form 8-K filed on September 22, 2005, Mr. Berry addressed the Company’s
4 compensation policies, including management’s receipt of option grants:

5 I am ... bothered by the fact that despite poor operating results, our
6 compensation policy is approaching a level where total compensation is not
7 consistent with performance. ***Specifically the annual stock grants given out***
8 ***over the years to management at all levels as a percentage of outstanding***
9 ***shares are unacceptably high.*** Companies our size should not be giving
10 grants of 50k – 75k shares to so many EVPs and SVPs year after year. This is
11 one of the areas our compensation policy is out of control.

12 However, to vote against these grants is not possible, ***as the internal pressure***
13 ***is immense to continue with these grants,*** as well as with the total
14 compensation proposed by management. These annual grants are just too high
15 combined with the generous base salaries which are now at levels well above
16 the 75% and approaching the 90% for most senior managers I have tried to
17 modulate overall compensation, but in truth it will not happen with the board
18 as presently constituted in my opinion. (*emphasis added*)

19 14. On November 21, 2006, Corinthian received a Nasdaq Staff Determination letter,
20 indicating that the Company was not in compliance with the filing requirements for continued listing as
21 set forth in Marketplace Rule 4310(c)(14).

22 **CORINTHIAN ADMITS TO BACKDATING**

23 15. On November 22, 2006, Corinthian announced that it had completed its review of historic
24 stock option grants. According to the Company’s announcement, during its four-month review, the
25 Special Committee conducted interviews of numerous individuals, including current and former
26 employees and Board members, collected over 2 million documents, and selected and reviewed over
27 550,000 potentially relevant documents.

28 16. Based on the Company’s internal review and the Special Committee’s investigation and
findings, the Company determined that it had unrecorded non-cash equity-based compensation charges
associated with certain of its historic stock option grants. ***The largest unrecorded charges relate to***
broad-based option grants during fiscal years 2001 and 2002 where the Company has determined that
the appropriate measurement date for accounting purposes differed from the measurement date used

1 *by the Company*. On four occasions during those two fiscal years, the Company’s Board or
2 Compensation Committee of the Board (“Compensation Committee”), as applicable, approved stock
3 option grants to be made within thirty days following the Board or Committee meeting. In each of those
4 cases, the *grants were made at the low closing price of the Company’s common stock during the*
5 *applicable thirty day period*, and the Company and the Special Committee have concluded that *each of*
6 *these grant dates were selected with the benefit of hindsight*.

7 17. Moreover, the Company identified several other occasions where the original grant date
8 differed from the appropriate measurement date as a result of contingencies, errors, administrative delays
9 or discrepancies.

10 18. As alleged in detail herein, in gross breach of their fiduciary duties as officers and/or
11 directors of Corinthian, the Individual Defendants colluded with one another to:

- 12 a. improperly backdate dozens of grants of Corinthian stock
13 options to Corinthian’s executive officers in violation of the
14 Company’s shareholder-approved stock option plans;
- 15 b. improperly record and account for the backdated stock options,
16 in violation of GAAP; and
- 17 c. produce and disseminate to Corinthian shareholders and the
18 market false financial statements and other false SEC filings
19 that improperly recorded and accounted for the backdated
20 option grants and concealed the improper backdating of stock
21 options.

22 19. As a result of the Individual Defendants’ egregious misconduct, Corinthian has sustained
23 millions of dollars in damages, and the Option Recipients Defendants have garnered millions of dollars
24 in unlawful profits.

25 **PARTIES**

26 **Lead Plaintiffs**

27 20. Lead Plaintiffs Frank Adolf and Bernice Gunkel are, and were at all relevant times,
28 shareholders of nominal defendant Corinthian.

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Nominal Defendant

21. Nominal defendant Corinthian is a Delaware corporation with its principal executive offices located at 6 Hutton Centre Drive, Suite 400, Santa Ana, California 92707. According to its public filings, Corinthian is one of the largest post-secondary education companies in North America, operating 95 schools in 26 states in the United States and 34 schools in the seven provinces of Canada.

Director Defendants

22. Defendant David G. Moore (“Moore”), one of the founders of the Company, served as the Company’s Chairman of the Board from August 2001 to December 2006. Moore has also served as a member of the Board from the Company’s inception in July 1995 until December 2006. Moore also served as Chief Executive Officer from July 1995 to November 2004, and as President from July 1995 to October 2002. In 2005, Moore received over Eight Hundred Forty Thousand Dollars (\$840,000.00) in salary, bonuses and other compensation.

23. Defendant Jack D. Massimino (“Massimino”) has served as the Company’s President and Chief Executive Officer since November 2004 and as a director since February 1999. Massimino also served as a member of the Audit Committee of the Board (“Audit Committee”) and the Compensation Committee from February 1999 to November 2004. In 2005, Massimino received over One Million Six Hundred Thousand Dollars (\$1,600,000.00) in salary, bonuses and other compensation.

24. Defendant Paul R. St. Pierre (“St. Pierre”), one of the founders of the Company, has served as Vice Chairman of the Board of Directors since January 2003 and as a director since the Company’s inception in July 1995. St. Pierre also served as the Company’s Executive Vice President, Marketing & Admissions from April 1998 to June 2003, and as Vice President of Marketing & Admissions from July 1995 to April 1998. In 2003, the last year St. Pierre was an executive officer with

1 the Company, he received over One Million Dollars (\$1,000,000.00) in salary, bonuses and other
2 compensation.

3 25. Defendant Linda Arey Skladany (“Skladany”) has served as a director of the Company
4 since February 1999. Skladany has also served as a member of the Compensation Committee since
5 August 2001 and as a member of the Audit Committee from 2001 to 2003.

6 26. Collectively, Defendants Moore, Massimino, St. Pierre and Skladany are referred to
7 herein as the “Director Defendants.” The following chart summarizes the positions held by the Director
8 Defendants during the relevant time period:
9 Defendants during the relevant time period:

Defendant	Recipient of Back-Dated Option Grant(s)	Member of Compensation Committee during relevant period	Member of Audit Committee during relevant period
Moore	x		
Massimino		x	x
St. Pierre	x		
Skladany		x	x

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17 **Option Recipient Defendants**

18 27. Defendant Frank J. McCord (“McCord”), one of the founders of the Company, served as
19 the Company’s Executive Vice President and Chief Financial Officer from April 1998 to June 2000, and
20 as Vice President and Chief Financial Officer from July 1995 to April 1998.

21 28. Defendant Dennis L. Devereux (“Devereux”), one of the founders of the Company,
22 served as the Company’s Executive Vice President, Administrative Services from August 2001 to
23 December 2004. Devereux also served as Executive Vice President, Human Resources from April 1998
24 to August 2001, and as Vice President, Human Resources from July 1995 to April 1998.

25 29. Defendant Beth A. Wilson (“Wilson”) has served as the Company’s Executive Vice
26 President of Operations since July 2001. Wilson also served as Vice President of Operations from June
27
28

1 1998 to June 2001, as Regional Operations Director for the Company's Rhodes Colleges, Inc. Division
2 from May 1997 to June 1998, and as Operations Director and Regional Operations Director for
3 Corinthian Schools, Inc., a subsidiary of the Company, from July 1995 to May 1997.

4 30. Defendant Dennis N. Beal ("Beal") served as the Company's Executive Vice President
5 and Chief Financial Officer from May 2000 to November 2004.

7 31. Defendant Anthony F. Digiovanni ("Digiovanni") served as the Company's President and
8 Chief Operating Officer from October 2002 to April 2004.

9 32. Defendant Mary Barry ("Barry") served as Corinthian's Vice President of Education from
10 April 1998 to 2001.

11 33. Defendant Bruce Deyong ("Deyong") is President and Chief Operating Officer of
12 Corinthian Schools, Inc., a Delaware corporation and wholly-owned operating subsidiary of the
13 Company, where he has been employed since 1996.

14 34. Defendant Timothy Schutz ("Schutz") is President and Chief Operating Officer of Titan
15 Schools, Inc., a Delaware corporation and wholly-owned operating subsidiary of the Company, since
16 July 2002.

17 35. Defendant Stan A. Mortensen ("Mortensen") has served as the Company's Senior Vice
18 President, General Counsel and Corporate Secretary since August 2002. Prior to his appointment as
19 Senior Vice President, Mortensen served as Vice President, General Counsel and Corporate Secretary
20 since January 2000. Prior to that time, Mortensen was an attorney at the law firm of O'Melveny &
21 Myers LLP from March 1997 through December 1999.

22 36. Collectively, Defendants Moore, St. Pierre, McCord, Devereux, Wilson, Beal,
23 Digiovanni, Barry, Deyong, Schutz and Mortensen are referred to herein as the "Option Recipient
24 Defendants."
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1 **Individual Defendants**

2 37. Collectively, the Option Recipient Defendants and Director Defendants are referred to
3 herein as the “Individual Defendants.”

4 **DUTIES OF THE INDIVIDUAL DEFENDANTS**

5 38. By reason of their positions as officers and/or directors of the Company and because of
6 their ability to control the business and corporate affairs of the Company, the Individual Defendants
7 owed the Company and its shareholders the fiduciary obligations of good faith, trust, loyalty and due
8 care, and were and are required to use their utmost ability to control and manage the Company in a fair,
9 just, honest and equitable manner. The Individual Defendants were and are required to act in
10 furtherance of the best interests of the Company and its shareholders so as to benefit all shareholders
11 equally and not in furtherance of their personal interest or benefit. Each director and officer of the
12 Company owes to the Company and its shareholders the fiduciary duty to exercise good faith and
13 diligence in the administration of the affairs of the Company and in the use and preservation of its
14 property and assets, and the highest obligations of fair dealing.

15 39. The Individual Defendants, because of their positions of control and authority as directors
16 and/or officers of the Company, were able to and did, directly and/or indirectly, exercise control over the
17 wrongful acts complained of herein.

18 40. To discharge their duties, the officers and directors of the Company were required to
19 exercise reasonable and prudent supervision over the management, policies, practices and controls of the
20 Company. By virtue of such duties, the officers and directors of the Company were required to, among
21 other things:

- 22 a. exercise good faith in ensuring that the affairs of the Company were
23 conducted in an efficient, business-like manner so as to make it
24 possible to provide the highest quality performance of its business;

- b. exercise good faith in ensuring that the Company was operated in a diligent, honest and prudent manner and complied with all applicable federal and state laws, rules, regulations and requirements, including acting only within the scope of its legal authority;
- c. exercise good faith in supervising the preparation, filing and/or dissemination of financial statements, press releases, audits, reports or other information required by law, and in examining and evaluating any reports or examinations, audits or other financial information concerning the financial condition of the Company;
- d. exercise good faith in ensuring that the Company's financial statements were prepared in accordance with GAAP; and
- e. refrain from unduly benefiting themselves and other Company insiders at the expense of the Company.

41. The Individual Defendants, particularly the members of the Audit Committee, were responsible for maintaining and establishing adequate internal accounting controls for the Company and to ensure that the Company's financial statements were based on accurate financial information. According to GAAP, to accomplish the objectives of accurately recording, processing, summarizing and reporting financial data, a corporation must establish an internal accounting control structure. Among other things, the Individual Defendants were required to:

- (1) make and keep books, records and accounts, which, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the issuer; and
- (2) devise and maintain a system of internal accounting controls sufficient to provide reasonable assurances that –
 - (a) transactions are executed in accordance with management's general or specific authorization; and
 - (b) transactions are recorded as necessary to permit preparation of financial statements in conformity with GAAP.

42. Corinthian's Audit Committee Charter provides that the Audit Committee shall, among other things:

- 1 a. assist the Board of Directors (the "Board") of Corinthian Colleges,
2 Inc. (this "Corporation") in fulfilling its oversight responsibilities by
3 reviewing and providing direction on the following matters:
- 4 - the financial reports and other financial information provided
5 by the Corporation to any governmental body or the public;
 - 6 - this Corporation's systems of internal controls regarding
7 finance, accounting, legal compliance and ethics that
8 management and the Board have established; and
 - 9 - this Corporation's auditing, accounting and financial reporting
10 processes generally.
- 11 b. serve as an independent and objective party to monitor the
12 Corporation's financial reporting process and internal control system;
- 13 c. review and appraise the audit efforts of the corporation's independent
14 accountants and internal auditing department;
- 15 d. provide an open avenue of communication among the independent
16 accountants, financial and senior management, the internal auditing
17 department, and the Board; and
- 18 e. be directly responsible for the appointment, compensation, retention
19 and oversight of the work of any registered public accounting firm
20 employed by the Corporation (including the resolution of
21 disagreements between management and the auditing firm regarding
22 financial reporting) for the purpose of preparing or issuing an audit
23 report or related work, and shall direct that such accounting firm
24 report directly to the Committee.

FACTUAL ALLEGATIONS

Stock Option Grants to the Option Recipient Defendants

25 43. Between 2000 and 2003, the Individual Defendants repeated in proxy statements that “the
26 exercise price of these stock options is the fair market value of the Common Stock on the date of grant.”
27 However, the Individual Defendants concealed the option backdating scheme until July 2006, when the
28 Company announced that it had begun a voluntary internal review of its historic stock option grants.

The 1998 Performance Award Plan (the “1998 Plan”)

1 44. According to the Company’s proxy statements, the Compensation Committee had the
2 authority to supervise all of the matters related to the compensation of executive officers of the
3 Company, including determining policies and practices, changes in compensation and benefits for
4 management, determination of employee benefits and all other matters relating to employee
5 compensation, *including matters relating to the administration of the Company’s 1998 Performance*
6 *Award Plan.*

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8 45. According to the 1998 Plan, discretionary awards were granted by the Administrator (the
9 Compensation Committee) only to those persons that the Compensation Committee determined to be
10 “Eligible Persons.”

11 46. According the Company’s proxy statements, “Eligible Persons” included officers or
12 employees of Corinthian or any of its subsidiaries, directors of Corinthian, and certain consultants and
13 advisors to Corinthian or any of its subsidiaries.

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15 47. Pursuant to the 1998 Plan, the purchase price per share of the Common Stock covered by
16 each option was determined by the Administrator at the time of the Award.

17 48. According to the 1998 Plan, the purchase price per share of the Common Stock covered
18 by each option could not be less than 100% of the fair market value of the Common Stock on the date of
19 grant of the option.

20 49. The Company’s proxy statements define fair market value as “the closing price of the
21 stock on the Composite Tape, as published in the Western Edition of The Wall Street Journal.”

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23 50. From August 1999 through August 2002, the Compensation Committee, with the
24 knowledge and approval of the other members of the Board, knowingly and deliberately backdated at
25 least the following discretionary stock option awards to the Option Recipient Defendants:
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Purported Date of Grant	Name	Adjusted Exercise Price¹	Adjusted Number of Options²
08/26/99	Moore	\$2.00	160,000
	St. Pierre	\$2.00	160,000
	McCord	\$2.00	160,000
	Devereux	\$2.00	160,000
	Wilson	\$2.00	32,000
04/14/00	McCord	\$2.12	40,000
	Wilson	\$2.12	89,904
	Mortensen	\$2.12	At least 4,000 ³
	Barry	\$2.12	At least 8,476
05/04/00	Beal	\$2.50	At least 80,000
09/11/00	Wilson	\$5.36	80,000
	Deyong	\$5.36	At least 10,000
	Mortensen	\$5.36	At least 20,000
	Barry	\$5.36	At least 20,000
12/15/00	Moore	\$7.43	400,000
	St. Pierre	\$7.43	400,000
	Devereux	\$7.43	400,000
	Beal	\$7.43	400,000
	Wilson	\$7.43	120,000
	Mortensen	\$7.43	At least 24,642
	Barry	\$7.43	At least 20,000
09/21/01	Moore	\$6.29	300,000
	St. Pierre	\$6.29	300,000
	Beal	\$6.29	300,000
	Devereux	\$6.29	300,000
	Wilson	\$6.29	300,000

¹ Stock prices reflect the Company's 2-for-1 stock splits on December 18, 2000, May 28, 2002 and March 24, 2004.

² Adjusted number of options reflects the Company's 2-for-1 stock splits on December 18, 2000, May 28, 2002 and March 24, 2004.

³ Where the total number of options is unknown, *i.e.* where the phrase "At least" is utilized, the stock option grant did not appear in any proxy statements filed by the Company but was first disclosed in Form 4 filings, which only included the number of options pursuant to the grant that were exercised on the transaction date and the number of options pursuant to that grant that were left unexercised as of the transaction date.

	Deyong	\$6.29	At least 30,000
	Mortensen	\$6.29	At least 20,000
	Barry	\$6.29	At least 20,000
08/27/02	Moore	\$16.01	150,000
	St. Pierre	\$16.01	150,000
	Devereux	\$16.01	150,000
	Beal	\$16.01	150,000
	Schutz	\$16.01	At least 10,000
	Deyong	\$16.01	At least 20,000
	Wilson	\$16.01	At least 37,500
	Mortensen	\$16.01	At least 17,500

51. Pursuant to APB 25, the applicable GAAP provision at the time of the foregoing stock option grants, if the market price on the date of grant exceeds the exercise price of the options, the company must recognize the difference as an expense.

52. Upon knowledge and information available to Lead Plaintiffs, from 1999 to October 29, 2002, the Compensation Committee granted option awards on eleven dates. No less than eight of the eleven option grants were discretionary option awards that were suspiciously dated either to coincide with the lowest closing price of Corinthian's stock during the fiscal period in which they were granted and/or to precede a substantial rise in Corinthian's stock price. Of the three remaining option grants during this time period, one was made solely to Defendant Mortensen purportedly on January 1, 2000, in connection with the commencement of Mortensen's employment with the Company as Vice President, General Counsel and Corporate Secretary. Another grant was made to the Company directors purportedly on November 15, 2001 in connection with the director compensation.⁴ The remaining grant was made solely to Defendant Schutz purportedly on July 1, 2002, in connection with the commencement of Schutz's employment with the Company as President of the RCI division. The January 1, 2000, November 15, 2001 and July 1, 2002 option grants were not discretionary stock awards

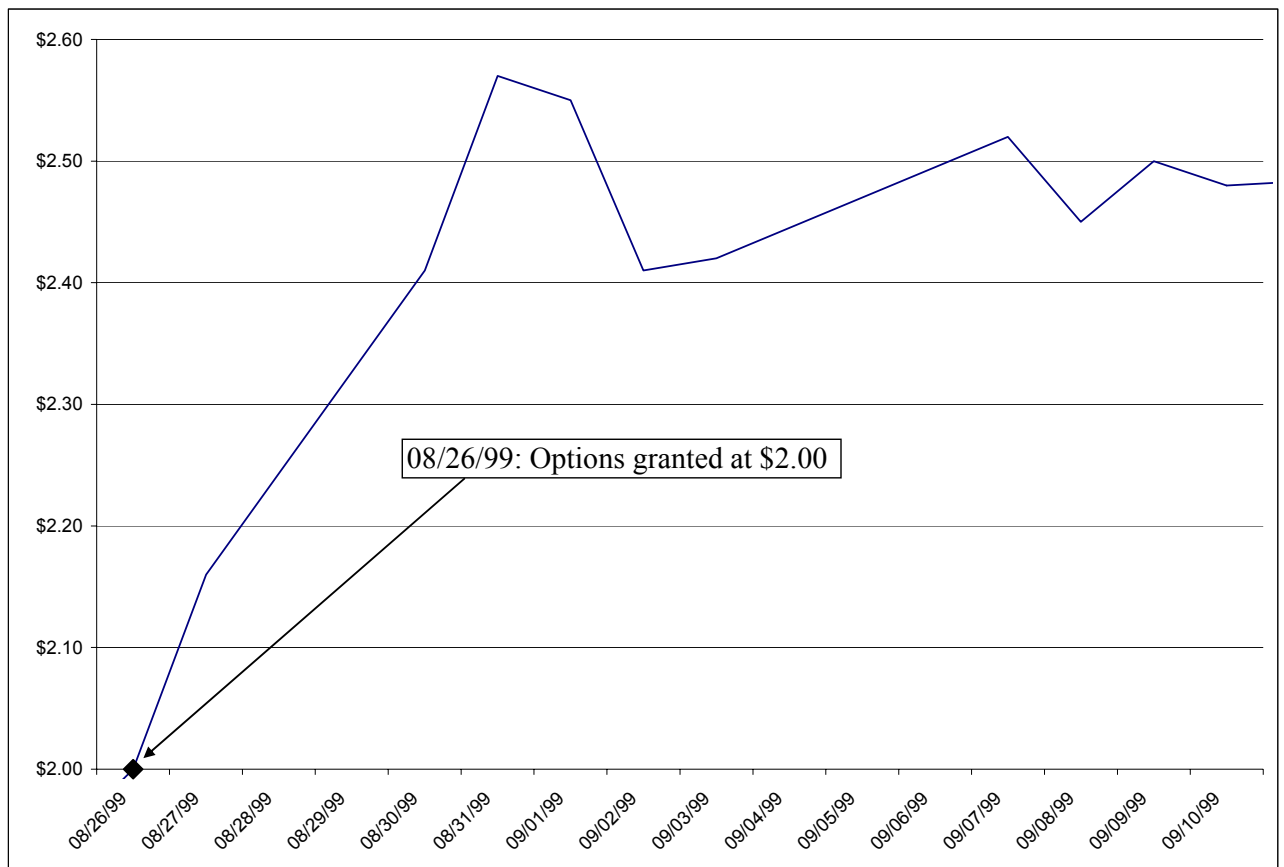
⁴ Immediately following each annual meeting of stockholders, each Corinthian director automatically received a stock option grant to purchase 10,000 shares of Common Stock. Each of these options which are granted at the then-current market price and all such options become 100% vested on the first anniversary of the grant date. The 2001 Annual Meeting of Stockholders of Corinthian Colleges, Inc. took place on November 15, 2001.

1 and thus are not claimed to have been backdated. Thus, every discretionary stock option award during
2 the period was backdated.

3 **Stock Option Awards for Fiscal Year Ended June 30, 2000**

4 53. During fiscal year ended June 30, 2000, the Compensation Committee purportedly
5 granted stock option awards to several Option Recipient Defendants dated as of August 26, 1999 at
6 \$2.00 per share. Ten trading days following the purported grant date, Corinthian stock rose to \$2.48 - a
7 *24% increase in just ten days.*

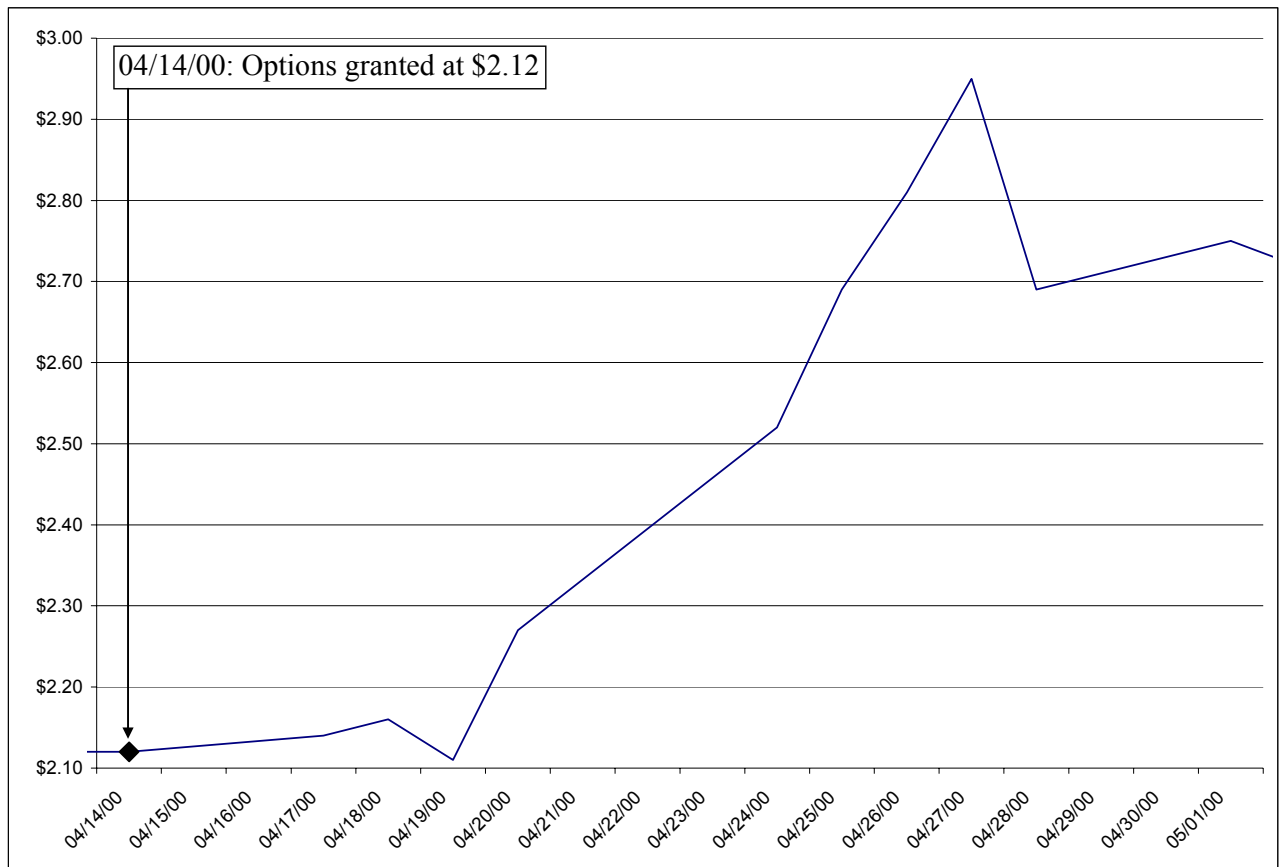
8 **August 26, 1999 – September 10, 1999**



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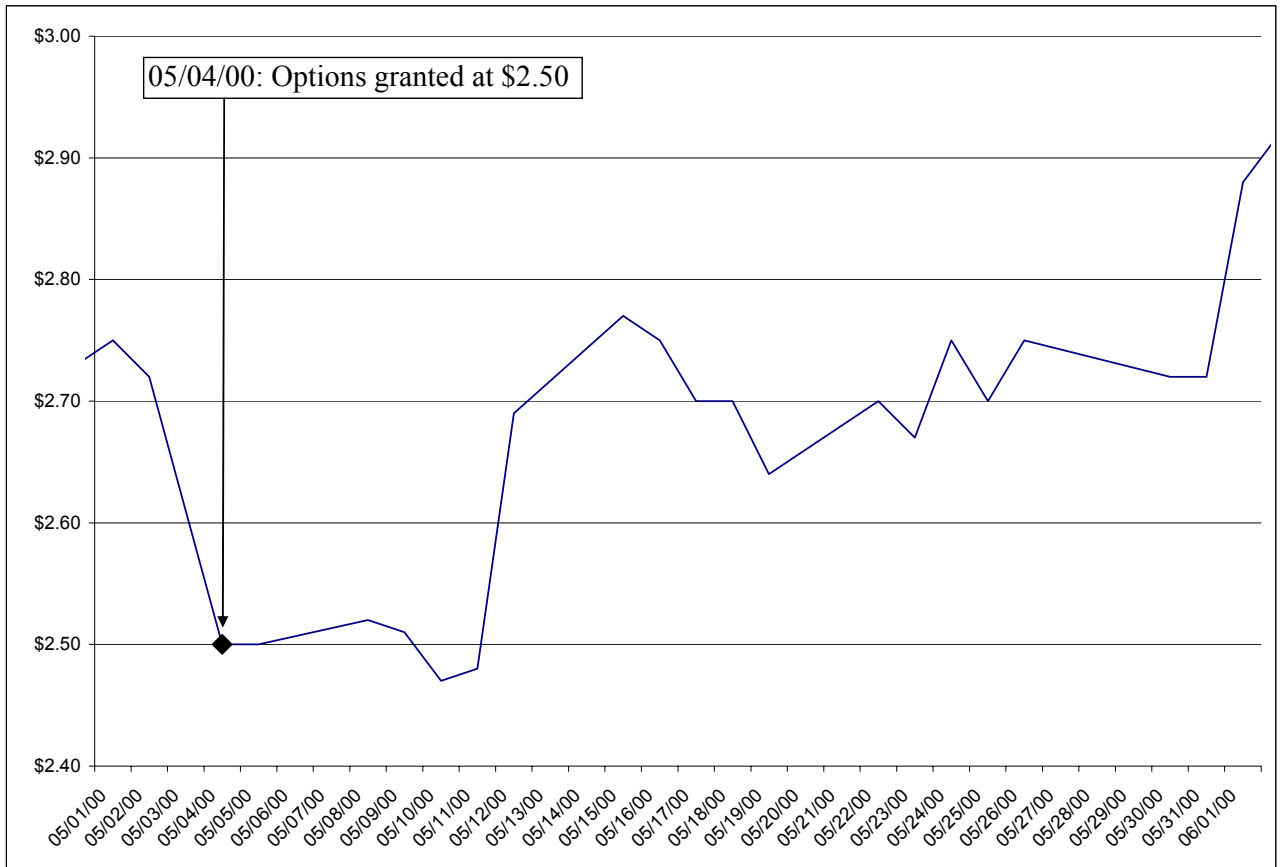
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3 54. Additional option grants were awarded to several Option Recipient Defendants
4 purportedly dated April 14, 2000 at \$2.12 per share. Ten trading days following the purported grant
5 date, Corinthian stock rose to \$2.75 - *a 29.7% increase in just ten days*.
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7 **April 14, 2000 – May 1, 2000**



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3 55. An additional option grant was awarded to Defendant Beal purportedly dated May 4,
4 2000 at \$2.50 per share, *one of the lowest closing prices for Corinthian common stock for the month.*
5 Indeed, Corinthian stock rose to \$2.77 in the month of May.
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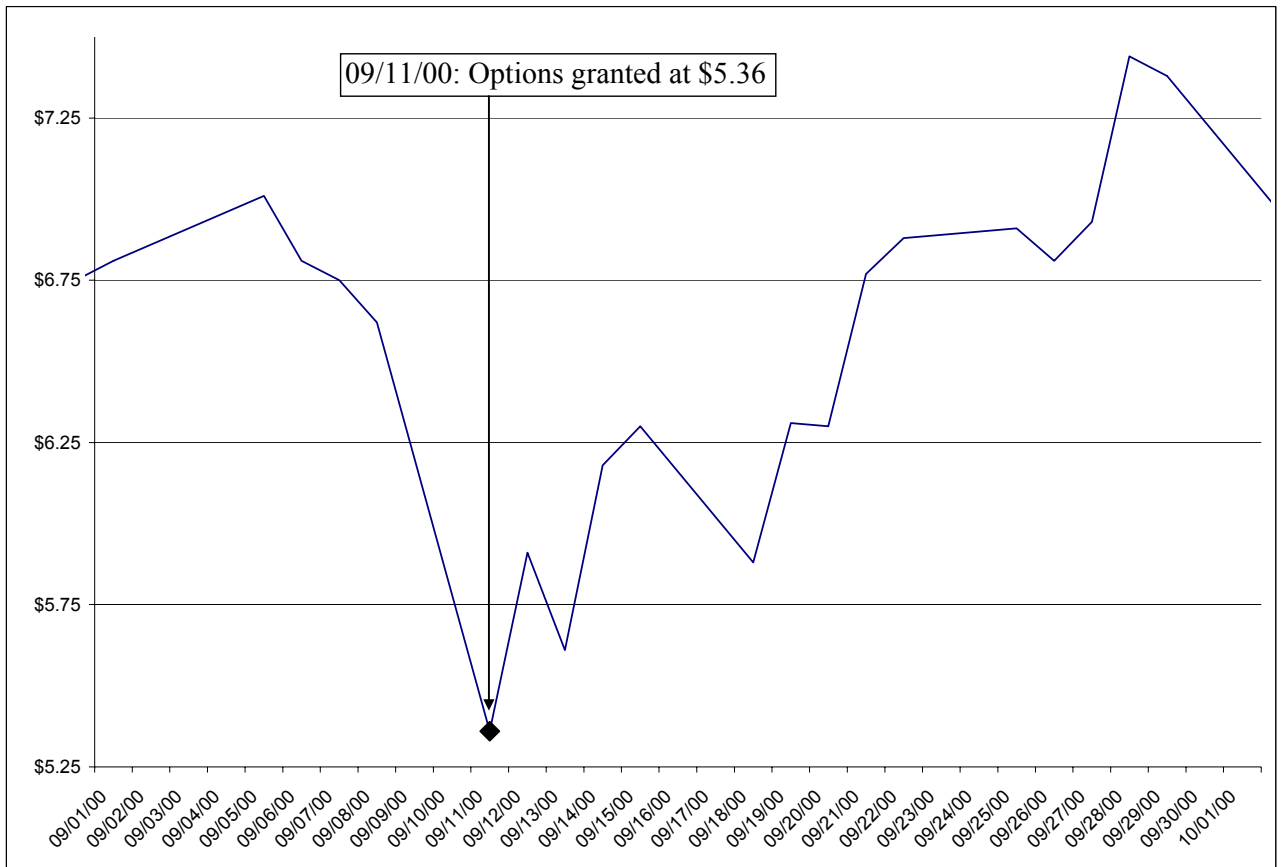
7 **May 2000**



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3 **Stock Option Awards for Fiscal Year Ended June 30, 2001**

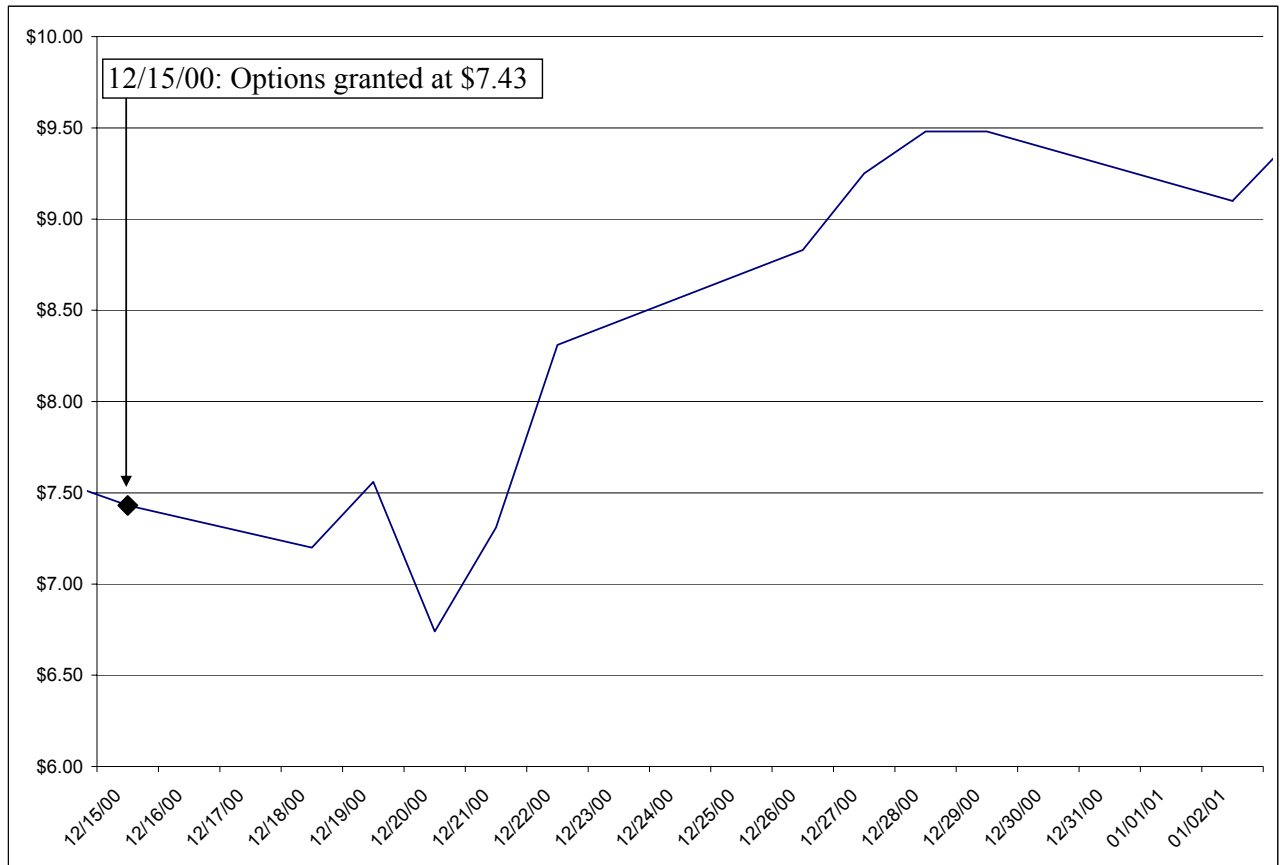
4 56. During fiscal year ended June 30, 2001, the Compensation Committee purportedly
5 granted stock option awards to several Option Recipient Defendants dated as of September 11, 2000 at
6 \$5.36 per share, *the lowest closing price for Corinthian common stock for the month*. Indeed,
7 Corinthian stock rose to \$7.44 in the month of September - *a 38.8% increase in less than one month*.

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9 **September 2000**



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2 57. Additional option grants were awarded to several Option Recipient Defendants
3 purportedly dated December 15, 2000 at \$7.43 per share. Ten trading days following the purported grant
4 date, Corinthian stock rose to \$9.10 - a 22.5% increase in just ten days.
5

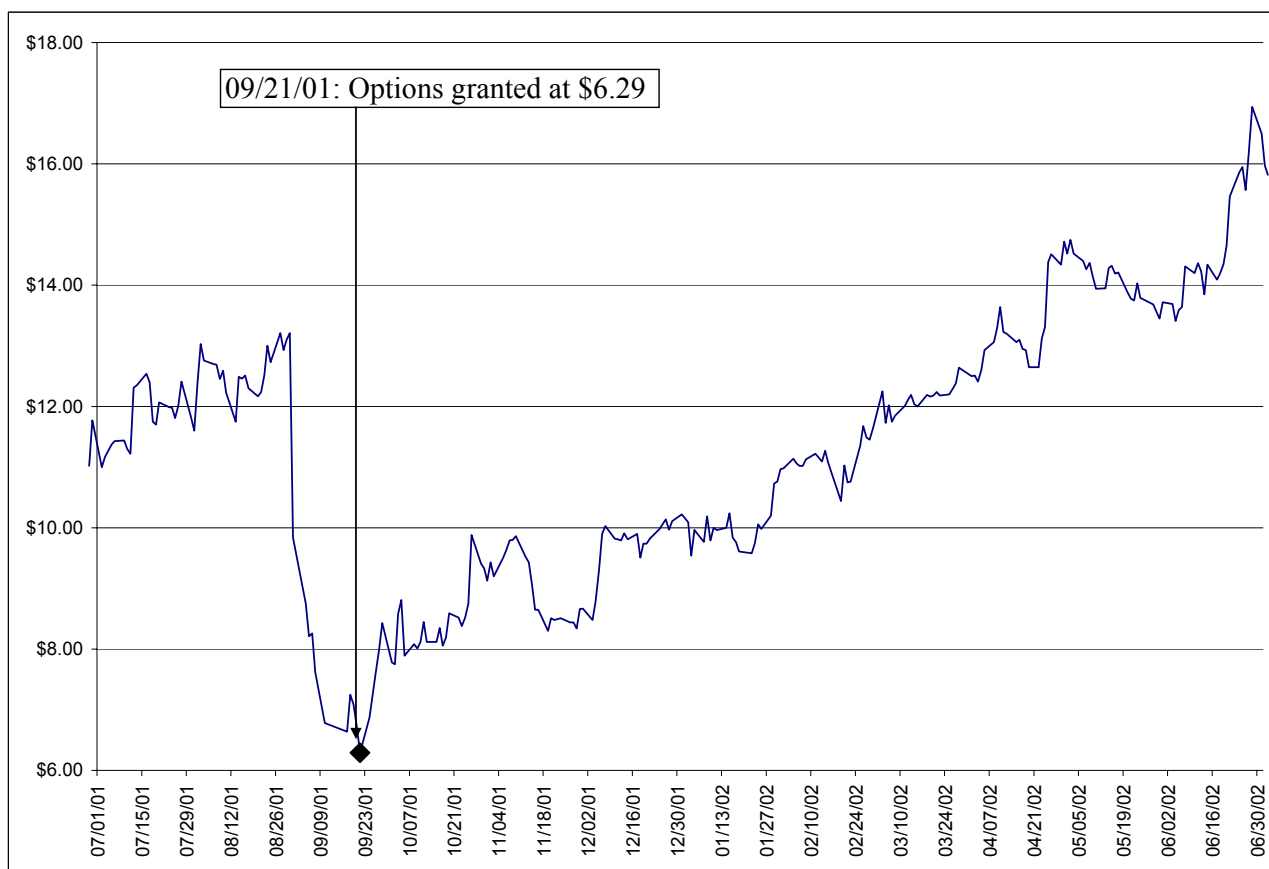
6 **December 15, 2000 – January 2, 2001**



1
2 **Stock Option Awards for Fiscal Year Ended June 30, 2002**

3 58. During fiscal year ended June 30, 2002, the Compensation Committee purportedly
4 granted stock option awards to several Option Recipient Defendants dated as of September 21, 2001 at
5 \$6.29 per share, *the lowest closing price for Corinthian common stock for the fiscal year*. Indeed in
6 less than ten trading days following the purported grant date, Corinthian stock rose to \$8.81 – *a 40%*
7 *increase in less than ten days*.
8

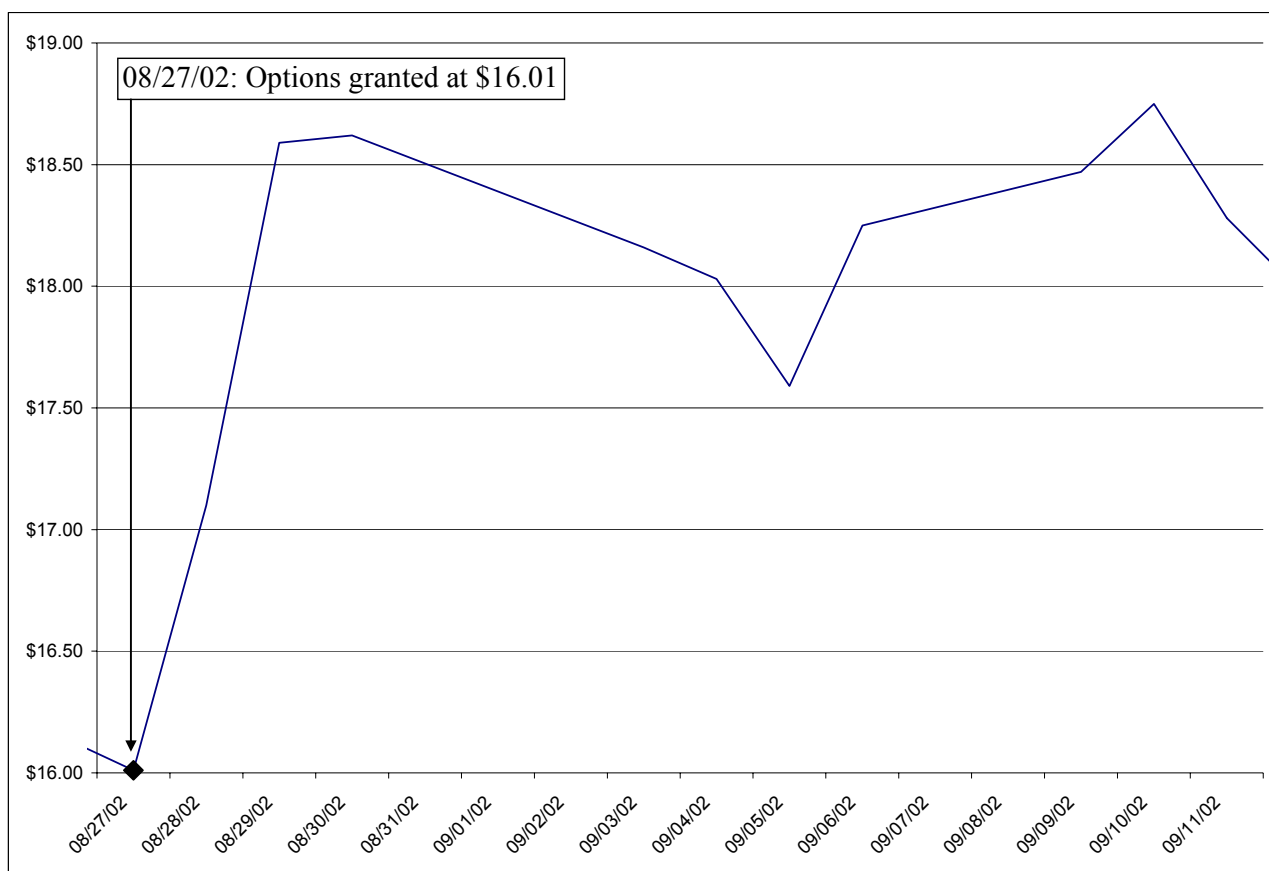
9 **Fiscal Year Ended June 30, 2002**



1
2 **Stock Option Awards for Fiscal Year Ended June 30, 2002**

3 59. During fiscal year ended June 30, 2003, the Compensation Committee purportedly
4 granted stock option awards to several Option Recipient Defendants dated as of August 27, 2002 at
5 \$16.01 per share. Ten trading days following the purported grant date, Corinthian stock rose to \$18.28 –
6
7 *a 14.2% increase in just ten days.*

8 **August 27, 2002 – September 11, 2002**



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Post Sarbanes-Oxley Act of 2002

60. Prior to the enactment of the Sarbanes-Oxley Act of 2002 (“SOX”), the Individual Defendants were able to engage in backdating of option grants with relative ease because under federal law they were only required to report option grants to the SEC once a year.

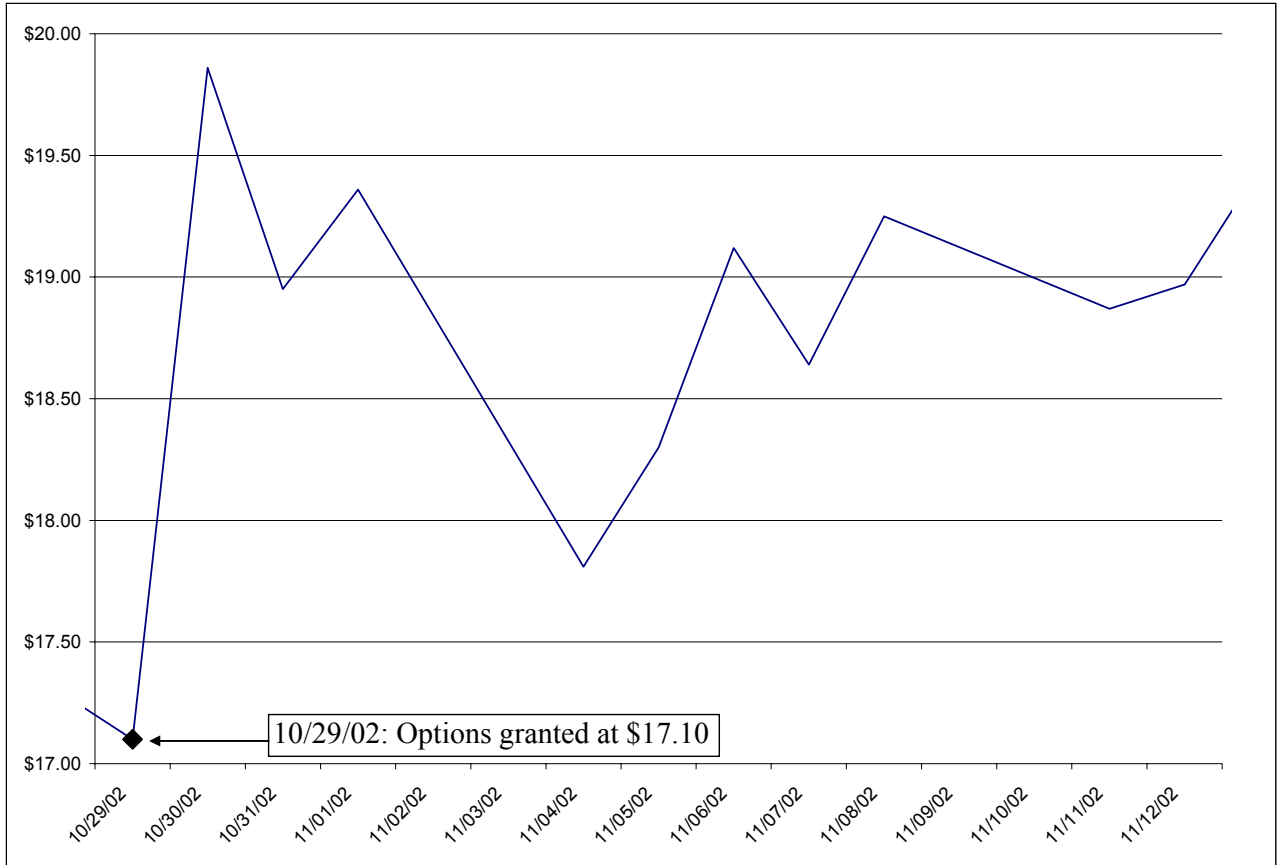
61. Pursuant to SOX, beginning on August 29, 2002, executives were required to report option grants to the SEC on Form 4 within two days of the grant.

62. Following the enactment of SOX, however, the Individual Defendants briefly continued to backdate option grants. Specifically, the Compensation Committee backdated the following stock option grant to one of the Option Recipient Defendants:

Purported Grant Date	Name	Adjusted Exercise Price	Adjusted Number of Options
10/29/02	Digiovanni	\$17.10	150,000

63. Defendant Digiovanni failed to comply with the SOX reporting requirements and never reported the purported October 29, 2002 option grant on Form 4. Ten trading days following the purported grant date, Corinthian stock rose to \$19.45 - *a 13.7% increase in just ten days.*

[Remainder of Page Left Blank Intentionally]



64. The reason for the extraordinary pattern set forth above is that the purported grant dates of all the discretionary stock option grants awarded from 1999 to 2002 were not the actual dates on which the stock option grants were made. Rather, at the behest of the Option Recipient Defendants, the Compensation Committee, with the knowledge and approval of the other members of the Board, knowingly and deliberately backdated options to make it appear as though the grants were made on dates when the market price of Corinthian stock was lower than the market price on the actual grant dates. This improper backdating, which violated the terms of the Company's shareholder-approved stock option plan, resulted in option grants with lower exercise prices, which improperly increased the value of the options to the Option Recipient Defendants and improperly reduced the amounts they had to pay the Company upon exercise of the options.

1 **Dissemination of False Financial Statements**

2 65. As a result of the improper backdating of stock options, the Company, with the
3 knowledge, approval, and participation of each of the Individual Defendants:

- 4 a. violated the terms of the Company's shareholder approved stock option
5 plan by granting options with exercise prices below fair market value;
- 6 b. violated GAAP by failing to recognize compensation expenses incurred
7 when the improperly backdated options were granted; and
- 8 c. produced and disseminated to Corinthian shareholders and the market
9 false financial statements that improperly recorded and accounted for the
10 backdated option grants, and thereby understated compensation expenses
and overstated net income.

11 66. From 2000 to 2005, the Company, with the knowledge, approval and participation of
12 each of the Individual Defendants, disseminated its false financial statements in, *inter alia*, the
13 following Form 10-K filings:

- 14 a. Form 10-K for the year ended June 30, 2000, filed with the SEC on
15 September 18, 2000 and signed by defendants Moore, Beal, St. Pierre,
Massimino and Skladany;
- 16 b. Form 10-K for the year ended June 30, 2001, filed with the SEC on
17 September 28, 2001 and signed by defendants Moore, Beal, St. Pierre,
18 Massimino and Skladany;
- 19 b. Form 10-K for the year ended June 30, 2002, filed with the SEC on
20 September 16, 2002 and signed by defendants Moore, Beal, St. Pierre,
Massimino, and Skladany;
- 21 c. Form 10-K for the year ended June 30, 2003, filed with the SEC on
22 September 25, 2003 and signed by defendants Moore, Beal, St. Pierre,
Massimino and Skladany;
- 23 d. Form 10-K for the year ended June 30, 2004, filed with the SEC on
24 September 13, 2004 and signed by defendants Moore, St. Pierre,
25 Massimino and Skladany; and
- 26 e. Form 10-K for the year ended June 30, 2005, filed with the SEC on
27 September 13, 2005 and signed by defendants Moore, St. Pierre,
28 Massimino and Skladany.

1 **Individual Defendants' Concealment of Their Misconduct**

2 67. From 2000 to 2003, the Company, with the knowledge, approval and participation of
3 each of the Individual Defendants, for the purpose and with the effect of concealing their improper
4 option backdating, as alleged herein, disseminated to shareholders and filed with the SEC annual proxy
5 statements that falsely reported the dates of stock option grants to the Option Recipient Defendants and
6 falsely stated that options were granted to the Option Recipient Defendants with exercise prices equal to
7 “the closing price of the stock on the Composite Tape, as published in the Western Edition of The Wall
8 Street Journal”, as follows:
9

- 10 a. Corinthian’s proxy statement filed with the SEC on October 13, 2000
11 falsely reported that options granted to Moore, St. Pierre, McCord,
12 Devereux and Wilson were granted on August 26, 1999 and options
13 granted to McCord and Wilson were granted on April 14, 2000, and
14 that the exercise prices of these options were equal to the fair market
15 value of a share of Corinthian Common Stock on the date of grant;
16
17 b. Corinthian’s proxy statement filed with the SEC on October 15, 2001
18 falsely reported that options granted to Wilson were granted on
19 September 11, 2000 and options granted to Moore, St. Pierre,
20 Devereux, Beal and Wilson were granted on December 15, 2000, and
21 that the exercise prices of these options were equal to the fair market
22 value of a share of Corinthian Common Stock on the date of grant;
23
24 c. Corinthian’s proxy statement filed with the SEC on October 15, 2002
25 falsely reported that options granted to Moore, St. Pierre, Beal,
26 Devereux and Wilson were granted on September 21, 2001, and that
27 the exercise price of these options was equal to the fair market value
28 of a share of Corinthian Common Stock on the date of grant; and
29
30 d. Corinthian’s proxy statement filed with the SEC on October 14, 2003
31 falsely reported that options granted to Moore, St. Pierre, Devereux
32 and Beal were granted on August 27, 2002 and options granted to
33 Digiovanni were granted on October 29, 2002, and that the exercise
34 prices of these options were equal to the fair market value of a share
35 of Corinthian Common Stock on the date of grant.

36 68. From 2003 to 2005, Corinthian, with the knowledge, approval, and participation of each
37 of the Individual Defendants, for the purpose and with the effect of concealing the improper option
38

1 backdating, filed with the SEC Form 4's that falsely reported the dates of stock option grants to Option
2 Recipient Defendants, as follows:

- 3 a. Deyong and Mortensen's Form 4's filed with the SEC on September
4 11, 2003 falsely reported that options granted to Deyong and
5 Mortensen were granted on September 11, 2000;
- 6 b. Deyong and Mortensen's Form 4's filed with the SEC on September
7 22, 2003 falsely reported that options granted to Deyong and
8 Mortensen were granted on September 21, 2001;
- 9 c. Beal's Form 4 filed with the SEC on October 6, 2003 falsely reported
10 that options granted to Beal were granted on September 21, 2001;
- 11 d. Schutz's Form 4 filed with the SEC on October 6, 2003 falsely
12 reported that options granted to Schutz were granted on August 27,
13 2002;
- 14 e. Beal's Form 4 filed with the SEC on October 8, 2003 falsely reported
15 that options granted to Beal were granted on September 21, 2001;
- 16 f. Wilson's Form 4 filed with the SEC on October 8, 2003 falsely
17 reported that options granted to Wilson were granted on August 26,
18 1999 and September 11, 2000;
- 19 g. Beal's Form 4's filed with the SEC on October 14, 2003, October 15,
20 2003, October 21, 2003, October 22, 2003 and October 28, 2003
21 falsely reported that options granted to Beal were granted on
22 September 21, 2001;
- 23 h. St. Pierre's Form 4's filed with the SEC on October 21, 2003, October
24 22, 2003 and October 28, 2003 falsely reported that options granted to
25 St. Pierre were granted on August 26, 1999;
- 26 i. Devereux's Form 4's filed with the SEC on November 3, 2003 and
27 November 4, 2003 falsely reported that options granted to Devereux
28 were granted on December 15, 2000;
- 29 j. Deyong's Form 4 filed with the SEC on November 3, 2003 falsely
30 reported that options granted to Deyong were granted on August 27,
31 2002;
- 32 k. Wilson's Form 4's filed with the SEC on November 4, 2003 and
33 November 12, 2003 falsely reported that options granted to Wilson
34 were granted on August 27, 2002 ;

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- l. St. Pierre's Form 4's filed with the SEC on November 4, 2003, November 12, 2003, November 18, 2003 and November 25, 2003 falsely reported that options granted to St. Pierre were granted on August 26, 1999 and September 21, 2001;
- m. Devereux's Form 4's filed with the SEC on December 2, 2003 and December 4, 2003 falsely reported that options granted to Devereux were granted on December 15, 2000;
- n. St. Pierre's Form 4's filed with the SEC on December 3, 2003, December 9, 2003, December 17, 2003, December 23, 2003 and December 30, 2003 falsely reported that options granted to St. Pierre were granted on December 15, 2000 and September 21, 2001;
- o. Beal's Form 4's filed with the SEC on December 16, 2003 and December 17, 2003 falsely reported that options granted to Beal were granted on December 15, 2000;
- p. Wilson's Form 4 filed with the SEC on December 29, 2003 falsely reported that options granted to Wilson were granted on December 15, 2000;
- q. St. Pierre's Form 4's filed with the SEC on January 6, 2004, January 13, 2004, January 21, 2004, January 28, 2004 and February 4, 2004 falsely reported that options granted to St. Pierre were granted on December 15, 2000;
- r. Barry's Form 4 filed with the SEC on January 7, 2004 falsely reported that options granted to Barry were granted on December 15, 2000;
- s. St. Pierre's Form 4's filed with the SEC on February 4, 2004 and February 10, 2004 falsely reported that options granted to St. Pierre were granted on August 27, 2002;
- t. Mortensen's Form 4's filed with the SEC on February 10, 2004, February 12, 2004 and March 29, 2004 falsely reported that options granted to Mortensen were granted on December 15, 2000;
- u. Devereux's Form 4's filed with the SEC on February 18, 2004, February 25, 2004, March 3, 2004, March 11, 2004, March 18, 2004, March 24, 2004, March 31, 2004, April 8, 2004, April 15, 2004, April 21, 2004, April 28, 2004 and May 5, 2004 falsely reported that options granted to Devereux were granted on August 26, 1999;
- v. Wilson's Form 4 filed with the SEC on April 15, 2004 falsely reported that options granted to Wilson were granted on April 14, 2000;

- 1 w. Mortensen's Form 4 filed with the SEC on April 22, 2004 falsely
2 reported that options granted to Mortensen were granted on April 14,
3 2000;
- 4 x. Mortensen's Form 4 filed with the SEC on April 23, 2004 falsely
5 reported that options granted to Mortensen were granted on August
6 27, 2002;
- 7 y. St. Pierre's Form 4 filed with the SEC on January 27, 2005 falsely
8 reported that options granted to St. Pierre were granted on September
9 21, 2001;
- 10 z. Barry's Form 4 filed with the SEC on February 2, 2005 falsely
11 reported that options granted to Barry were granted on April 14, 2000,
September 11, 2000 and September 21, 2001; and
- 12 aa. Wilson's Form 4 filed with the SEC on February 2, 2005 falsely
13 reported that option granted to Wilson were granted on April 14, 2000.

14 69. The Individual Defendants continued to conceal their foregoing misconduct until July 12,
15 2006, when Corinthian announced that the Company had begun a voluntary internal review of its
16 historic stock option grants.

17 70. On August 18, 2006, the Company issued a press release, which was attached to the
18 Company's Form 8-K filed on August 18, 2006, announcing that the SEC was conducting an informal
19 inquiry into the Company's practices, procedures and disclosures related to its historic stock option
20 grants:

21 Corinthian Colleges, Inc. reported today that the Securities and Exchange
22 Commission (the "SEC") is conducting an informal inquiry into the
23 Company's practices, procedures and disclosures related to its historic stock
24 option grants. The Company is cooperating with the SEC in its inquiry.

25 On July 12, 2006, the Company reported that a special committee of
26 independent directors (the "Special Committee") had been formed to review
27 the Company's historic stock option grants. At that time, the Company also
28 informed the SEC that the Special Committee, assisted by independent legal
counsel, was undertaking the review. The review is on-going, and when it is
completed the Company plans to provide a public statement regarding the
results.

The Company has also been served with two shareholder derivative actions
filed in Orange County, California Superior Court by individuals identifying

1 themselves as shareholders of the Company. The complaints name the
2 Company as a nominal defendant and a number of the Company's current
3 and former directors and officers as defendants. The complaints allege that
4 the current and former director and officer defendants breached their
fiduciary duties to the Company with respect to certain historical stock option
grants.

5 71. On September 18, 2005, Michael P. Berry resigned from the Company's Board. In his
6 letter of resignation dated September 13, 2005, which was attached to the Company's Form 8-K filed on
7 September 22, 2005, Mr. Berry addressed the company's compensation policies, including
8 management's receipt of option grants. Tellingly, Mr. Berry's letter of resignation from the Board
9 described a Board that utterly failed to act in an independent and good faith manner:

10 It is ironic that during the last three plus years on the board, there has been not
11 one dissenting vote on the board other than one time I vote [sic] no, and
12 another couple of times I abstained. No one else has ever voted either no nor
13 abstained. That is the result of not truly reaching consensus, but needing to
appear to be unified, and papering over differences because there is no
confronting the brutal facts.

14 72. On November 22, 2006, Corinthian admitted to backdating stock option grants. In a press
15 release attached to the Company's Form 8-K filed on November 22, 2006, the Company announced:

16 Based on the Company's internal review and the Special Committee's
17 investigation and findings, the Company has determined that it had
18 unrecorded non-cash equity-based compensation charges associated with
19 certain of its historic stock option grants. The largest unrecorded charges
20 relate to broad-based option grants during fiscal years 2001 and 2002 where
21 the Company has determined that the appropriate measurement date for
22 accounting purposes differed from the measurement date used by the
23 Company. On four occasions during those two fiscal years, the Company's
Board or Compensation Committee, as applicable, approved stock option
grants to be made within thirty days following the Board or Committee
meeting. In each of those cases, the grants were made at the low closing price
of the Company's common stock during the applicable thirty day period, and
the Company and the Special Committee have concluded that each of these
grant dates were selected with the benefit of hindsight.

24 In addition, the Company identified several other occasions where the
25 original grant date differed from the appropriate measurement date as a result
of contingencies, errors, administrative delays or discrepancies.

26 In total, the unrecorded compensation expense and related tax liabilities
27 associated with the use of incorrect measurement dates from fiscal 2001
28 through fiscal 2005 was approximately \$5.7 million. The Company has

1 included the cumulative effect of the additional compensation expense as an
2 entry to the beginning retained earnings balance at July 1, 2005. The
3 Company has also recorded an after-tax expense of \$0.5 million in the fourth
4 quarter of fiscal 2006.

5 As previously reported, the Company incurred approximately \$1.8 million in
6 the fiscal 2007 first quarter in legal and other expenses related to the Special
7 Committee's review. The Company continued to incur additional legal and
8 other expenses in its fiscal 2007 second quarter related to the Special
9 Committee's review and expects to incur additional costs on related matters,
10 including its ongoing cooperation with the SEC's inquiry.

11 **DEFENDANTS' INSIDER SELLING**

12 73. During the Relevant Period, Defendants Barry, Beal, Devereux, Deyong, Moore,
13 Mortensen, Schutz, Skladany, St. Pierre and Wilson (collectively, the "Insider Selling Defendants"),
14 while in possession of materially adverse non-public information regarding the backdating of stock
15 options and the false financial statements resulting therefrom, sold more than \$87 million in Corinthian
16 stock, as summarized below:

17	18	19
20	21	22
NAME	SHARES DISPOSED	PROCEEDS
Barry	252,000	\$13,273,046.10
Beal	114,375	\$6,738,935.50
Devereux	438,066	\$25,692,752.15
Deyong	159,026	\$9,895,265.72
Moore	323,732	\$18,795,505.34
Mortensen	28,568	\$1,819,370.51
Schutz	10,343	\$669,487.30
Skladany	57,044	\$3,555,330.81
St. Pierre	300,748	\$10,412,010.31
Wilson	75,138	\$1,349,924.06
TOTAL	1,846,290	\$87,440,252.90

23 **THE INDIVIDUAL DEFENDANTS' BREACHES OF FIDUCIARY DUTIES**

24 74. In a misguided effort to attract and retain employees in a competitive environment, the
25 Individual Defendants exceeded the bounds of the law and legitimate business judgment by perpetrating
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1 their backdating scheme. The Individual Defendants' misconduct was unjustifiable and constituted a
2 gross breach of their fiduciary duties by:

- 3 a. colluding with each other to backdate stock option grants;
- 4 b. colluding with each other to violate GAAP;
- 5 c. colluding with each other to produce and disseminate to Corinthian
6 shareholders and the market false financial statements that improperly
7 recorded and accounted for the backdated option grants and concealed
8 the improper backdating of stock options; and
- 9 d. colluding with each other to file false proxy statements, false financial
10 statements, and false Form 4's in order to conceal the improper
11 backdating of stock options.

12 75. The Individual Defendants' foregoing misconduct was not, and could not have been, an
13 exercise of good faith business judgment. Rather, it was intended to, and did, unduly benefit the Option
14 Recipient Defendants at the expense of the Company and its shareholders.

15 76. As a direct and proximate result of the Individual Defendants' foregoing breaches of
16 fiduciary duties, the Company has sustained millions of dollars in damages, including, but not limited to,
17 the additional compensation expenses and tax liabilities the Company will be required to incur, the loss
18 of funds paid to the Company upon exercise of stock options resulting from the difference between the
19 fair market value of the sock option on the true date of grant and the price that was actually paid as a
20 result of the backdated stock option grant, the costs and expenses incurred in connection with the
21 Company's internal investigation and restatement of historical financial statements and the SEC
22 investigation of the Company.

23 77. Certain of the Individual Defendants have exercised hundreds of thousands of backdated
24 options at improperly low prices and have sold the shares for substantial profits and/or have engaged in
25 improper insider selling. Consequently, these Individual Defendants have been unjustly enriched by
26

1 garnering millions of dollars in illicit profits and depriving the Company of millions of dollars in
2 payments that the Company should have received upon exercise of the options.

3 **DERIVATIVE AND DEMAND EXCUSED ALLEGATIONS**

4 78. Lead Plaintiffs bring this action derivatively in the right and for the benefit of the
5 Company to redress defendants' breaches of fiduciary duties and unjust enrichment.

6 79. Lead Plaintiffs are owners of Corinthian common stock and were owners of Corinthian
7 common stock at all times relevant hereto.

8 80. Lead Plaintiffs will adequately and fairly represent the interests of the Company and its
9 shareholders in enforcing and prosecuting its rights.

10 81. As a result of the facts set forth herein, Lead Plaintiffs have not made any demand on the
11 Corinthian Board of Directors to institute this action against the Individual Defendants. Such demand
12 would be a futile and useless act because the Board is incapable of making an independent and
13 disinterested decision to institute and vigorously prosecute this action.

14 82. At the time this action was commenced, the Board consisted of seven directors:
15 Defendants Moore, St. Pierre, Massimino and Skladany, and non-defendant directors Hank Adler, Terry
16 O. Hartshorn and Alice T. Kane. The following directors are incapable of independently and
17 disinterestedly considering a demand to commence and vigorously prosecute this action:

- 18
- 19
- 20
- 21 a. Moore, because as an Option Recipient Defendant he is directly
22 interested in the improperly backdated stock option grants complained
23 of herein. Accordingly, Moore is incapable of independently and
24 disinterestedly considering a demand to commence and vigorously
25 prosecute this action against the Individual Defendants;
- 26 b. St. Pierre, because as an Option Recipient Defendant he is directly
27 interested in the improperly backdated stock option grants complained
28 of herein. Accordingly, St. Pierre is incapable of independently and
disinterestedly considering a demand to commence and vigorously
prosecute this action against the Individual Defendants;

1 c. Skladany, because as a member of the Compensation Committee at
2 times relevant hereto, Skladany, with the knowledge and approval of
3 the other members of the Board, knowingly and deliberately
4 backdated options so they would carry improperly low exercise prices,
5 and thereby unduly benefit the Option Recipient Defendants, as
6 alleged herein, and as a member of the Audit Committee, she directly
7 participated in and knowingly approved the filing of false financial
statements and other false SEC filings as alleged herein and directly

8 d. Massimino, because his principal professional occupation is his
9 position as President and Chief Executive Officer of the Company. In
10 his position as President and Chief Executive Officer of the Company,
11 Massimino stands to earn hundreds of thousands of dollars in annual
12 salary, bonuses, and other compensation, all of which must be
13 approved by Defendant Skladany, who currently serves as a member
14 of the Compensation Committee. Massimino also served as a member
15 of the Compensation Committee at times relevant hereto and
16 knowingly and deliberately backdated options so they would carry
17 improperly low exercise prices, and thereby unduly benefit the Option
18 Recipient Defendants, as alleged herein. Massimino also served as a
19 member of the Audit Committee at relevant times hereto and directly
participated in and knowingly approved the filing of false financial
statements and other false SEC filings as alleged herein and directly
participated in and approved the Company's violations of GAAP, as
alleged herein. Accordingly, Massimino is substantially likely to be
held liable for the misconduct complained of herein. Moreover, by
colluding with the Option Recipient Defendants and others, as alleged
herein, Massimino has demonstrated that he is unable or unwilling to
act independently of the other Individual Defendants.

20 83. Furthermore, demand is excused because the misconduct complained of herein was not,
21 and could not have been, an exercise of good faith business judgment. As represented in Corinthian's
22 proxy statements, the stated purpose of the Company's shareholder-approved stock option plan is to
23 "promote the success of Corinthian and the interests of [the Company] stockholders by providing an
24 additional means for [Corinthian] to attract, motivate, retain and reward directors, officers, employees
25 and other eligible persons through the grant of awards and incentives for high levels of individual
26 performance and improved financial performance of the company. Equity-based awards are also
27

1 intended to further align the interests of award recipients and our stockholders.” However, by granting
2 options with backdated exercise prices, the Individual Defendants undermined the purpose of the
3 Company’s shareholder-approved stock option plan by awarding employees compensation that had
4 intrinsic value regardless of Corinthian’s future performance. In effect, this practice was nothing more
5 than secret handouts to executives and employees at the expense of unsuspecting shareholders and the
6 Company.
7

8 84. Demand is further excused because, as described in Mr. Berry’s letter of resignation dated
9 September 13, 2005, the Board did not act independently and was driven by a consensus model which
10 merely rubber-stamped management’s proposals and was under intense pressure to continue with
11 improper option grants:

12
13 Regrettably the board members per se does [sic] not get to see the meeting
14 materials until the very last minute largely due to staffing issues in accounting
15 and finance, which the Audit Committee and E&Y has continually brought to
16 management’s attention. Likewise board members are not even encouraged to
17 put items on the agenda, or at least I have never been asked. I am sure the
18 chairs do have greater input.

19 * * *

20 That the board is driven by such a consensus model does not serve the needs
21 of our shareholders. Given that reality, I cannot continue in good faith to be
22 on a board that in my opinion operates in a manner inconsistent with good
23 practice. Likewise, I would [sic] not have agreed to take my issues outside the
24 board room as you suggested.

25 * * *

26 You know for three years I have been very troubled that the board has
27 permitted there to be meetings before, during, and after the board meeting,
28 where individual board members are privy to information not available to the
entire board. This is intended to, and does undermine the effectiveness and
integrity of the board and the practice should be stopped. Likewise the
committee structure is not useful, as usually all the board members attend,
thus causing there to be little room for true dialogue and discussion as
envisioned in rationale for setting up of such committees.

I emphatically do not agree with your statement to me and to the board during
our last meeting that your philosophy of the board’s role was “that it is for

1 management to propose and the board to dispose.” That is not in my opinion
2 at all in keeping with either present theory or practice of the board’s role, and
3 is just the type of statement that led other companies down the wrong path.
4 While it is true in some matters, it is not a universal truth. It is in direct
5 contradiction with some of our committee charters as I pointed out to you.

6 85. The Individual Defendants could have achieved the stated purpose of attracting and
7 retaining “eligible persons” by granting them additional options under its incentive plans, or by granting
8 options at a price less than the fair market value on the date of grant and simply disclosing and
9 expensing these grants. Instead, the Individual Defendants attracted and retained Corinthian employees
10 by backdating option grants in violation of the Company’s shareholder-approved stock option plan and
11 improperly reporting these grants in their financial disclosures to improve their bottom line.

12 86. The practice of backdating stock options cannot be a valid exercise of business judgment
13 because it has subjected Corinthian to potentially massive liability. Corinthian has recently completed
14 an internal investigation. The SEC has also initiated its own inquiry into the Company’s historical
15 option grants.

16 **COUNT I**

17 **Against the Individual Defendants for**
18 **Accounting**

19 87. Lead Plaintiffs incorporate by reference and reallege each and every allegation set forth
20 above, as though fully set forth herein.

21 88. As alleged in detail herein, each of the Individual Defendants had a fiduciary duty to,
22 among other things, refrain from unduly benefiting themselves and other Company insiders at the
23 expense of the Company.

24 89. As alleged in detail herein, the Individual Defendants breached their fiduciary duties by,
25 among other things, engaging in a scheme to grant backdated stock options to themselves and/or certain
26 other officers and directors of the Company and to cover up their misconduct.
27
28

1 grants and thus invalid as they were not authorized in accordance with the terms of the Company's
2 shareholder-approved stock option plans.

3 104. All contracts which provide for stock option grants to the Option Recipient Defendants
4 and were entered into during the relevant period should, therefore, be rescinded, with all sums paid
5 under such contracts returned to the Company and all such executory contracts cancelled and declared
6 void.
7

8 WHEREFORE, Lead Plaintiffs demand judgment as follows:

- 9 A. Against all of the Individual Defendants and in favor of the
10 Company for the amount of damages sustained by the Company as
11 a result of the Individual Defendants' misconduct;
- 12 B. Ordering the Option Recipient Defendants to disgorge to the
13 Company all of the backdated stock options they received,
14 including the proceeds of any such options that have been
15 exercised, sold, pledged, or otherwise monetized, and imposing a
16 constructive trust thereover;
- 17 C. Granting appropriate equitable relief to remedy Individual
18 Defendants' breaches of fiduciary duties;
- 19 D. Awarding to Lead Plaintiffs the costs and disbursements of the
20 action, including reasonable attorneys' fees, accountants' and
21 experts' fees, costs, and expenses; and
- 22 E. Granting such other and further relief as the Court deems just and
23 proper.

24 **JURY TRIAL DEMANDED**

25 Lead Plaintiffs demand a trial by jury.

26 Dated: January 23, 2007

27 BRODSKY & SMITH LLC

28 By: *s/ Evan J. Smith (SBN 242352)*

Evan J. Smith (SBN No. 242352)

9595 Wilshire Boulevard, Suite 900

Beverly Hills, CA 90212

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14 Attorneys for Plaintiff

15 SUPERIOR COURT OF THE STATE OF CALIFORNIA
16 FOR THE COUNTY OF ORANGE

17 IN RE CORINTHIAN COLLEGES, INC.,
18 SHAREHOLDER DERIVATIVE
19 LITIGATION

CASE NO.: 06CC000140
DEPT.: CX 101
JUDGE: HON. DAVID VELASQUEZ

20 **PROOF OF MAILING**

21 COMMONWEALTH OF PENNSYLVANIA)
22) ss.
23 COUNTY OF MONTGOMERY)

24 I, Evan J. Smith, Esquire, declare:

25 I am a resident of the State of Pennsylvania and over the age of eighteen years, and not a party to the
26 within action; my California business address is 9595 Wilshire Blvd., Ste. 900, Beverly Hills, CA 90212
27 and my Pennsylvania business address is Two Bala Plaza, Suite 602, Bala Cynwyd, PA 19004. On
28 January 23, 2007, I served the within document:

Amended Consolidated Derivative Shareholder Complaint

by transmitting via facsimile the document(s) listed above to the fax number(s) set
forth below on this date before 5:00 p.m.

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X by placing the document(s) listed above in a sealed envelope and placing it in the box that is located in my building in the ordinary course of my business practice at the end of the day before the courier has made a pick up addressed as set forth below.

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Attorneys for Individual Defendants

Meredith Landy, Esquire
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Attorneys for Defendant Corinthian Colleges

by placing the document(s) listed above in a sealed _____ envelope and affixing a pre-paid air bill, and causing the envelope to be delivered to a _____ agent for delivery.

by personally delivering the document(s) listed above to the person(s) at the address(es) set forth below.

I am readily familiar with my office's practice of collection and processing correspondence for mailing. Under that practice it would be deposited with the U.S. Postal Service on that same day with postage thereon fully prepaid in the ordinary course of business. I am aware that on motion of the party served, service is presumed invalid if postal cancellation date or postage meter date is more than one day after date of deposit for mailing in affidavit. I declare under penalty of perjury under the laws of the State of California that the above is true and correct.

Executed on January 23, 2007, at Bala Cynwyd, PA 19004

/s/ Evan J. Smith (SBN 242352)
Evan J. Smith (SBN 242352)