

## **Corinthian Colleges Inc. California Attorney General Complaint Allegations vs. Facts**

On October 10, 2013, the California Attorney General filed a complaint against Corinthian Colleges, wrongly accusing our schools of inflating job placement statistics for our graduates. As we made clear in the response we filed on November 12, the complaint paints a misleading and inaccurate picture of our schools. We plan to vigorously defend the integrity of the work we do for our students and graduates.

The Attorney General's complaint is filled with allegations based on half a sentence, half a chart or much less than half of an email exchange or presentation. It repeatedly omits readily available facts and direct quotes that contradict or undercut its charges. As our reply says, the complaint is "a document built on a foundation of misquoted, deceptively excerpted and – at best – misunderstood materials."

The complaint fails to note that:

- Every year, tens of thousands of students graduate from one of Corinthian's schools and find jobs in the fields for which they train;
- Corinthian has more than 750 Career Services employees nationwide dedicated to helping our graduates find jobs. As our response notes, our network of campuses has one graduate placement employee for every 108 students. In a typical community college, that ratio is one for every 1,600 students;
- Corinthian has relationships with thousands of large and small employers nationwide, some of whom hire dozens of our graduates every year;
- About eight years ago, Corinthian became one of the first companies in the education sector to establish an institution-wide verification team that checks the accuracy of job placement data reported by its campuses;
- Unlike most traditional colleges and universities, which are regionally accredited, the majority of our schools are required by national accreditation agencies to help a high percentage of our graduates find employment in their fields; and
- Corinthian goes even farther, holding its regionally accredited schools – Heald and Everest College Phoenix – to the same standards.

Below we offer five examples of misleading allegations contained in the complaint. All of them cite portions of documents that the Attorney General's office elected to leave out of the complaint, even though the office had all of these documents before the complaint was filed.

## **EXAMPLE #1**

**What They Put In:** A quote from a single slide in a PowerPoint presentation by Corinthian Chairman and CEO Jack Massimino: "We have a placement compliance problem now."

**What They Left Out:** The last half of Massimino's sentence, which changes its meaning entirely: "We have a placement compliance problem now and we need to get back into compliance."

### **BACKGROUND:**

On page 10, in paragraph 51(a), the complaint refers to a 64-slide PowerPoint presentation that Massimino prepared for a meeting of the company's Executive Leadership Team, a small group of senior managers, in September, 2011. The group was preparing for a multi-day meeting to address a wide range of strategic business issues and the PowerPoint served as a basic agenda. Only one slide, number 20, referred to job placements for graduates.

The entire text of the slide includes three bulleted items and a final question. The bullets: "We had a CDR (cohort default rate) problem and fixed it/We had a retention compliance problem and got back into compliance/We have a placement compliance problem now and need to get back into compliance."

At the bottom of the slide, there is a question: "Do we need to execute against standards higher than just compliance?"

As our response of November 12 notes, Massimino's presentation shows "that in a challenging employment environment amid the worst recession in generations, (Corinthian) leadership was concerned about not placing a sufficient number of its graduates. This slide does not, as the Government insinuates, mean that the School's leadership believed that the School had issues with the falsification of student placements."

## **EXAMPLE #2**

**What They Put In:** Brief quotes from a single chart in a PowerPoint presentation by Corinthian’s marketing department, which the complaint cites to wrongly accuse the schools of exploiting students and disparaging them as having “low-self-esteem” and being “unable to see and plan well for the future.”

**What They Left Out:** Half of the chart, which shows the opposite. Under the heading “What They Need,” the chart says Corinthian offers students “encouragement, someone who believes in them,” “Sense of belonging, place where they can succeed,” and “Don’t BS me, tell it like it is.”

### **Background:**

On page 2, in paragraph 3, the complaint refers to a 64-slide PowerPoint presentation prepared by CCI’s marketing department, using source material from an independent marketing research firm. It includes quotes from one-half of a chart on one slide (Number 9), which is headed “Who They Are.” The chart summarizes interviews with Corinthian students and in many cases uses the students’ own words to describe themselves. Other research by the firm found that community college students use many of the same words to describe themselves

The complaint makes no mention of the right side of the chart, headed “What They Need,” which includes descriptions of the values that students want and that Corinthian’s schools offer: “Encouragement, someone who believes in them,” “Trust is earned, not automatic,” and “Don’t BS me, tell it like it is.”

The complaint mischaracterizes the source of information from one side of a chart in an effort to wrongly accuse Corinthian of predatory behavior, while ignoring information on the other side of the same chart that demonstrates Corinthian seeks to deal honestly with students and help them succeed.

### **EXAMPLE #3**

**What They Put In:** Brief excerpts from an email exchange between two senior Corinthian executives, Executive Vice President Bob Botic and Everest College West Division President Nicole Carnagey, which the complaint wrongly characterizes as misconduct.

**What They Left Out:** The majority of the exchange, which shows the opposite. Carnagey has learned of questions regarding job placements at two campuses and Botic demands immediate action, asking “Are we sure they are good placements and has (a Corinthian employee) personally verified continuous employment?”

#### **Background:**

On page 11, in paragraph 51(c), the complaint quotes brief excerpts from an email exchange between Botic and Carnagey, on February 10, 2012, in which Carnagey tells Botic she has just learned of allegations that two Corinthian campuses violated policies regarding job placements. “I just got this info today,” Carnagey writes.

Botic responds to Carnagey *within 30 minutes* and recites a long list of “questions that need answering” in an alarmed tone: “So what did we pay the temp agency to do? Was there a contract and if so who signed? Why wouldn’t (a Corinthian employee) have known? Are we sure they are good placements and has he personally verified continuous employment? How many students are we discussing. This is the (expletive) that got Decatur in trouble and the types of questions that need answering.”

Later in the exchange, Botic adds, “Just wanted you to have some of the questions I believe require answering ... Get me looped in quickly.”

As we note in our response of November 12, “This e-mail discussion demonstrates that leadership moves swiftly and decisively to deal with any alleged irregularities. The Government fails to include that the questionable student placements were investigated, removed and never reported to accreditors or included on a student disclosure form (*emphasis added*).”

## **EXAMPLE #4**

**What They Put In:** Brief excerpts from a second email exchange between Botic and Carnagey, which the complaint wrongly characterizes as misconduct.

**What They Left Out:** The majority of the exchange, which shows the opposite. An internal Corinthian audit has raised concerns about job placements at one campus and Botic adamantly supports the audit, saying “(T)aking a pharm tech person and counting them as placed when they work as a patient care technician isn’t even close ... no ifs or buts.”

### **Background:**

On page 12, in paragraph 51(h), the complaint quotes briefly from an email exchange between Botic and Carnagey on May 18-19, 2012, in which the two discuss a Corinthian campus that has failed an *internal* audit because of concerns about job placements.

Botic repeatedly endorses the findings of the audit in strong terms, advocating strict standards for defining job placements and demanding that every campus adhere to those standards.

“(J)ust to be clear ... taking a pharm tech person and counting them as placed when they work as a patient care technician isn’t even close ... no ifs or buts. ... “

Botic later adds, “Everybody understood the consequences when I rolled this out with (a Corinthian employee) and you were in the room and agreed (BS) would not be acceptable. Now that (BS) popped it isn’t the time to go hey wait a minute.”

Again, the full email exchange shows two senior Corinthian executives responding promptly and with urgency when the schools’ policies are violated.

## **EXAMPLE #5**

**What They Put In:** Brief excerpts from a PowerPoint presentation that Basic provided to senior Corinthian managers, which the complaint wrongly uses to argue that CCI's job placement statistics are unreliable.

**What They Left Out:** Quotes from the same presentation that show Corinthian goes to great lengths to verify the accuracy of its job placement statistics: "At a minimum, employers are contacted 3 times to verify the same placement .... (I)t can be up to 6 times."

### **Background:**

On page 12, in paragraph 51(g), the complaint refers to an 11-slide PowerPoint presentation dated May 10, 2012 that Basic provided to two other senior Corinthian executives. The presentation outlines the findings and "Solution Suggestions" of a team devoted to analyzing and improving CCI's system for tracking and reporting job placement data.

But rather than suggesting that Corinthian is reporting inaccurate data, as the complaint suggests, the presentation says just the opposite. The team concluded that CCI's current process for verifying job placement statistics includes a number of overlapping processes and could be streamlined without sacrificing accuracy.

As our response of November 12 notes, "Far from reflecting a lack of verification as the Government suggests, the document includes claims that employers were being contacted *from three up to six times* to confirm placements."

## **EXAMPLE #6**

**What They Put In:** Excerpts of an email from Vice President of Compliance Michelle Reed to Executive Vice President Beth Wilson, which the complaint uses to wrongly accuse Corinthian of reporting questionable job placements to accreditors and regulators.

**What They Left Out:** Follow up documents, which show the opposite is true. Corinthian's internal verification program identified questions about the status of 28 self-employed graduates and eliminated them before they were submitted to any accreditor or regulator. The verification process worked as it should have.

### **Background:**

On page 13, in paragraph 51(j), the complaint cites an email dated July 13, 2013, which discusses an internal audit of job placements at one Corinthian campus. The complaint wrongly alleges that Corinthian identified "irregularities" with 28 self-employed graduates but did not amend reports submitted to accreditors.

In fact, the audit identified questions about these graduates BEFORE they were reported to any regulator or included in any public disclosure, so no amendment was necessary.

As our response of November 12 notes, Corinthian "discovered and investigate these placement issues through its internal controls, and, after a rigorous review of records, removed a number of job placements on its own initiative ... (C)ontrary to the government's insinuation, there was no need for an amendment of any disclosures."

1 IRELL & MANELLA LLP  
John C. Hueston (164921)  
2 Brian J. Hennigan (86955)  
Andra B. Greene (123931)  
3 Khaldoun Shobaki (232864)  
1800 Avenue of the Stars, Suite 900  
4 Los Angeles, California 90067-4276  
Telephone: (310) 277-1010  
5 Facsimile: (310) 203-7199  
E-mail: jhueston@irell.com  
6 bhennigan@irell.com  
agreene@irell.com  
7 kshobaki@irell.com

8 Attorneys for Defendants

9  
10 SUPERIOR COURT OF THE STATE OF CALIFORNIA  
11 FOR THE COUNTY OF SAN FRANCISCO

12 THE PEOPLE OF THE STATE OF )  
13 CALIFORNIA, )

14 Plaintiff, )

15 vs. )

16 HEALD COLLEGE, LLC; CORINTHIAN )  
COLLEGES, INC.; CORINTHIAN )  
17 SCHOOLS, INC.; SEQUOIA EDUCATION, )  
INC.; CAREER CHOICES, INC.; MJB )  
18 ACQUISITION CORPORATION; TITAN )  
SCHOOLS, INC.; RHODES COLLEGES, )  
19 INC.; FLORIDA METROPOLITAN )  
UNIVERSITY, INC.; EVEREST COLLEGE )  
20 PHOENIX, INC.; and DOES 1 through 100, )  
INCLUSIVE, )

21 Defendants. )  
22 )  
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Case No. CGC-13-534793

THE SCHOOL'S VERIFIED ANSWER

Assigned to Hon. Curtis E.A. Karnow, Dept.  
304

Action Filed: October 10, 2013



1 Pursuant to California Code of Civil Procedure § 446, Defendants Heald College LLC,  
2 Corinthian Colleges, Inc., Corinthian Schools, Inc., Sequoia Education, Inc., Career Choices, Inc.,  
3 MJB Acquisition Corporation, Titan Schools, Inc., Rhodes Colleges, Inc., Florida Metropolitan  
4 University, Inc. and Everest College Phoenix, Inc. (collectively, “the School”) hereby answer the  
5 numbered paragraphs of the People of the State of California’s (hereinafter, “the Government”)   
6 Complaint for Civil Penalties, Permanent Injunction, and Other Relief (“Complaint”) as follows:

7 **PRELIMINARY STATEMENT**

8 The Government’s false allegations and the aspersions cast on the School’s relationship with  
9 its students are offensive and demeaning—to the School and its employees; to its students who are  
10 striving for a career and a better life; and to the employers who hire its thousands of qualified  
11 graduates. The Government’s Complaint also implies that state regulators and accreditation  
12 agencies have failed to provide proper oversight of the School. This is ill informed and  
13 demonstrably untrue.

14 The Complaint suggests that the School’s employees go to work every day for the express  
15 purpose of preying on students. This is insulting and preposterous. The School and its employees  
16 are passionately dedicated to providing quality career education, to helping students overcome  
17 academic and personal obstacles that stand in the way of completing their programs, and to  
18 helping graduates find meaningful work in their fields of study. Most of the School’s students  
19 have not succeeded in a traditional academic environment; over 40% have tried community  
20 college before enrolling at one of its institutions. The School’s students have few people in their  
21 lives who can provide the support and encouragement they need to achieve a career goal. The  
22 School and its employees are committed to honoring the trust that its students place in its  
23 institutions. Its campus teams work in concert to teach, mentor, counsel, coach and cheerlead their  
24 students to success. Across the School’s network of campuses, it has one career services  
25 employee for every 108 students; in a typical community college, that ratio is one counselor for  
26 approximately 1,000 students, including all types of counseling, from personal to academics to  
27 career. The School’s substantial and on-going investment in placement services has helped tens of  
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1 thousands of graduates find work in their fields, even during the recent deep and prolonged  
2 recession.

3 As a career institution, the School is subject to a complex, oft-times conflicting, and extensive  
4 web of federal and state regulation, along with myriad accreditation, licensing and reporting  
5 requirements. The School has been, and continues to be an industry leader in its commitment to  
6 integrity and to the implementation and enhancement of processes and training to promote  
7 compliance. The School has devoted substantial resources to not only meet these regulatory  
8 requirements, but to exceed them. Rather than acknowledging and commending the School's  
9 aspirational goals, the Government is seeking to punish the School. The Complaint is replete with  
10 selective, misleading and out-of-context quotations that attempt to turn the School's commitment  
11 to high standards against it.

12 In California, the School has cooperated extensively with the Government. It has done so  
13 openly and because it has confidence in its internal controls and its people. The School provided  
14 several hundred thousand pages of documents, voice recordings and answers to new questions  
15 posed on an almost-weekly basis by the Government. The School repeatedly offered to present  
16 information and explanation on any issues about which the Government had concerns. Without  
17 accepting those offers and without any notice, the Government filed this Complaint—a document  
18 built on a foundation of misquoted, deceptively excerpted, and—at best—misunderstood  
19 materials. For example, the Government cites a slide from a presentation in paragraph 51(e) for  
20 the proposition that there was a “placement file error rate of 53.6 percent to 70.6 percent.” In  
21 reality, that slide does not even include the word “placement,” and the internal review in question  
22 did not reflect a single suspect, let alone false placement, contrary to the Government's  
23 insinuation.

24 The School will address and expose those mischaracterizations in due course before this Court  
25 in a process that begins with this Verified Answer.

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27  
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## INTRODUCTION

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2       1.       The School is without knowledge or information sufficient to form a belief as to the  
3 truth or falsity of the Government’s representations about its purported reasons for bringing this  
4 action, and denies the allegations in paragraph 1 on that basis. What’s past is prologue: In 2007,  
5 the Government received \$4,300,000 to distribute to students as part of the stipulated judgment in  
6 *People v. Corinthian Schools, Inc., et al.*, No. BC374999 (Los Angeles Superior Court). More  
7 than *six years* later, over \$4.2 million still sits in the Government’s coffers because it has failed to  
8 diligently locate and disburse the funds to the students. The balance of the allegations in  
9 paragraph 1 are conclusions of law to which no response is required. To the extent that they may  
10 be construed as factual allegations, the School denies the allegations in paragraph 1.

11       2.       The School vehemently denies that it engages in “unlawful, unfair and fraudulent  
12 practices” as alleged in paragraph 2. The School admits that the costs and fees for the programs  
13 listed in paragraph 2 are accurate. Education costs have risen significantly for all education  
14 sectors, and have been driven higher by the federal government’s 90/10 rule in the proprietary  
15 sector. Except as expressly admitted herein, the School denies the allegations in paragraph 2.

16       3.       The School serves non-traditional students with varied demographics. The School’s  
17 research has revealed insights about how these students *view themselves*, and what kinds of  
18 models and services the School can provide to help these students succeed in their stated  
19 educational goals. In the Complaint, the Government selectively quoted from a slide contained in  
20 a presentation in an attempt to cast the School’s view of its students in a negative light. A copy of  
21 the complete slide is attached hereto as **Exhibit A**. For students who described themselves as  
22 “isolated,” the School saw a need for a “[s]ense of belonging, place where they can succeed.” For  
23 students who described themselves as having “low self esteem,” the School saw a need for a  
24 “[c]onfident, capable, real adult, role model for kids.” For those who said they have “few people  
25 in their lives who care about them,” the School saw a need to provide “[e]ncouragement, someone  
26 who believes in them.” And for those who said they were “[s]tuck, unable to see and plan well for  
27 the future,” the School offered “[s]omeone who can show them how so they can gain  
28 independence.” The School admits that it is proud to offer a meaningful, nurturing environment

1 that responds to the self-professed needs of its students. The School admits that it uses Internet,  
2 telemarketing and television advertisement to publicize its programs and encourage students to  
3 better their lives through education. Except as expressly admitted herein, the School denies the  
4 allegations in paragraph 3.

5 4. The School admits that the stipulated judgment in *People v. Corinthian Schools, Inc.,*  
6 *et al.*, No. BC374999 (Los Angeles Superior Court) includes injunctive relief. The stipulated  
7 judgment speaks for itself, including the obligation of the Government to distribute funds to  
8 students, which it has failed to do. Except as expressly admitted herein, the School denies the  
9 allegations in paragraph 4.

10 5. The allegations in paragraph 5 are conclusions of law and a prayer for relief, to which  
11 no response is required. To the extent that they may be construed as factual allegations, the  
12 School denies the allegations in paragraph 5. Nonetheless, the School prays that the Government  
13 take nothing by the Complaint, that the requested injunctive and equitable relief be denied, that the  
14 School be awarded judgment in this action.

15 **THE PARTIES**

16 6. The School admits that Kamala D. Harris is the Attorney General of the State of  
17 California. The allegations in paragraph 6 are conclusions of law to which no response is  
18 required. Except as expressly admitted herein, the School denies the allegations in paragraph 6.

19 7. The School admits the factual allegations of paragraph 7, noting that Heald College  
20 LLC is an indirect subsidiary of Corinthian Colleges, Inc.

21 8. The allegation in paragraph 8 is the Government's definition of what it means when it  
22 uses the term "Heald," and no responsive pleading is required, except that Heald College LLC has  
23 no subsidiaries.

24 9. The School admits the factual allegations of paragraph 9 related to Corinthian  
25 Colleges, Inc.'s incorporation, principal place of business, subsidiary ownership and enrollment of  
26 students in California.

27 10. The School admits the factual allegations regarding its stock symbol and listing in  
28 paragraph 10. The remaining allegations in paragraph 10 are conclusions of law to which no

1 response is required. Except as expressly admitted herein, the School denies the allegations in  
2 paragraph 10.

3 11. The allegation in paragraph 11 is the Government's definition of what it means when it  
4 uses the term "Corinthian Colleges, Inc.," and no responsive pleading is required.

5 12. The School admits the factual allegations regarding Corinthian Schools, Inc.'s  
6 incorporation, principal place of business and nature as a wholly-owned subsidiary found in  
7 paragraph 12, but denies that Corinthian Schools, Inc. owns the Ontario Metro campus, and denies  
8 that Corinthian Schools, Inc. currently owns the Los Angeles – Wilshire, San Francisco, Hayward  
9 and San Jose campuses.

10 13. The allegation in paragraph 13 is the Government's definition of what it means when it  
11 uses the term "Corinthian Schools, Inc.," and no responsive pleading is required.

12 14. The School admits the factual allegations regarding Sequoia Education, Inc.'s  
13 incorporation, principal place of business and ownership.

14 15. The allegation in paragraph 15 is the Government's definition of what it means when it  
15 uses the term "Sequoia Education, Inc.," and no responsive pleading is required.

16 16. The School admits the factual allegations regarding Career Choices, Inc.'s  
17 incorporation, principal place of business, subsidiary ownership and nature as a wholly-owned  
18 subsidiary.

19 17. The allegation in paragraph 17 is the Government's definition of what it means when it  
20 uses the term "Career Choices, Inc.," and no responsive pleading is required.

21 18. The School admits the factual allegations regarding MJB Acquisition Corporation's  
22 incorporation, principal place of business and ownership.

23 19. The allegation in paragraph 19 is the Government's definition of what it means when it  
24 uses the term "MJB Acquisition Corporation," and no responsive pleading is required.

25 20. The School admits the factual allegations regarding Titan Schools, Inc.'s incorporation,  
26 principal place of business, subsidiary ownership and nature as a wholly-owned subsidiary.

27 21. The allegation in paragraph 21 is the Government's definition of what it means when it  
28 uses the term "Titan School, Inc.," and no responsive pleading is required.

1       22.     The School admits the factual allegations regarding Rhodes Colleges, Inc.’s  
2 incorporation, principal place of business, subsidiary ownership, nature as a wholly-owned  
3 subsidiary and that it conducts business in California.

4       23.     The allegation in paragraph 23 is the Government’s definition of what it means when it  
5 uses the term “Rhodes Colleges, Inc.,” and no responsive pleading is required.

6       24.     The School admits the factual allegations regarding Florida Metropolitan University,  
7 Inc.’s incorporation, principal place of business, subsidiary ownership, nature as a wholly-owned  
8 subsidiary and that it conducts business in California.

9       25.     The allegation in paragraph 25 is the Government’s definition of what it means when it  
10 uses the term “Florida Metropolitan University, Inc.,” and no responsive pleading is required.

11       26.     The School admits the factual allegations regarding Everest College Phoenix, Inc.’s  
12 incorporation, principal place of business and ownership and that it conducts business in  
13 California.

14       27.     The allegation in paragraph 27 is the Government’s definition of what it means when it  
15 uses the term “Everest College Phoenix, Inc.,” and no responsive pleading is required.

16       28.     The School is without knowledge or information sufficient to form a belief as to the  
17 truth or falsity of the allegations of paragraph 28 and denies the allegations on that basis.

18       29.     The allegation in paragraph 29 is the Government’s definition of what it means when it  
19 uses the term “DOE Defendants 1 to 50,” and no responsive pleading is required.

20       30.     The allegation in paragraph 30 is the Government’s definition of what it means when it  
21 uses the term “DOE Defendants 51 to 100,” and no responsive pleading is required.

22       31.     The allegation in paragraph 31 is the Government’s explanation of what it means when  
23 it uses the terms “CCI” or “Defendants,” and no responsive pleading is required.

24       32.     No responsive pleading is required to paragraph 32.

25       33.     The allegations in paragraph 33 are conclusions of law to which no response is  
26 required. To the extent that they may be construed as factual allegations, the School denies the  
27 allegations in paragraph 33.

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1 34. The allegations in paragraph 34 are conclusions of law to which no response is  
2 required. To the extent that they may be construed as factual allegations, the School denies the  
3 allegations in paragraph 34.

4 35. No responsive pleading is required to paragraph 35.

5 36. The allegations in paragraph 36 are conclusions of law to which no response is  
6 required. To the extent that they may be construed as factual allegations, the School denies the  
7 allegations in paragraph 36.

8 37. The allegations in paragraph 37 are conclusions of law to which no response is  
9 required. To the extent that they may be construed as factual allegations, the School denies the  
10 allegations in paragraph 37.

11 38. The allegation in paragraph 38 is a conclusion of law to which no response is required.

12 39. The allegations in paragraph 39 are conclusions of law to which no response is  
13 required. To the extent that they may be construed as factual allegations, the School denies the  
14 allegations in paragraph 39.

15 **JURISDICTION AND VENUE**

16 40. The allegation in paragraph 40 is a conclusion of law to which no response is required.

17 41. The allegation in paragraph 41 is a conclusion of law to which no response is required.

18 42. The allegation in paragraph 42 is a conclusion of law to which no response is required.

19 To the extent that this is construed as a factual allegation, the School is without knowledge or  
20 information sufficient to form a belief as to the truth or falsity of the allegation in paragraph 42,  
21 and denies the allegation on that basis.

22 43. The allegation in paragraph 43 is a conclusion of law to which no response is required.

23 44. The allegation in paragraph 44 is a conclusion of law to which no response is required.

24 45. The allegation in paragraph 45 is a conclusion of law to which no response is required.

25 The Government bases its claim of jurisdiction on the July 31, 2007 Final Judgment in *People v.*  
26 *Corinthian Schools, Inc., et al.*, No. BC374999 (Los Angeles Superior Court). The judgment  
27 speaks for itself, including the Government's obligation to distribute funds to students and the  
28 benefit to the Government should it fail to do so. In the judgment, the Los Angeles Superior Court

1 retained jurisdiction over actions to enforce the terms of the judgment. Instead of seeking to  
2 enforce the judgment before the court that entered it, the Government has chosen to bring this case  
3 in a venue more than 400 miles away from the School's headquarters, operations center and many  
4 potential trial witnesses in Santa Ana, California.

### 5 **THE GOVERNMENT'S ALLEGATIONS**

6 46. The School admits that it educates students through nationally and regionally  
7 accredited campuses and online, including the identified schools.

#### 8 **The School Accurately Reports Job Placement Rates to Students and Accreditors**

9 47. The School calculates and reports student placement statistics based on formulae and  
10 criteria established by a variety of regulatory bodies. The nature of these calculations varies  
11 widely between, on the one hand, accreditors like ACCSC and ACICS and on the other hand,  
12 reports mandated by the United States Department of Education's Program Integrity Rules and the  
13 State of California's Bureau for Private Postsecondary Education. The School has robust  
14 compliance, accreditation and licensing processes in place to ensure that its reports are accurate  
15 and comply with the applicable rules and regulations. The School denies that its July 1, 2012  
16 disclosures do not "match or agree" with the School's placement data. The Government's  
17 allegations in paragraph 47 are vague and ambiguous as to the purported representations and  
18 advertisements at issue. As such, the School is without knowledge or information sufficient to  
19 form a belief as to the truth or falsity of the Government's allegations in paragraph 18 about  
20 "representations and advertisements," and denies them on that basis. To the extent the allegation  
21 is based on the out-of-context and misleading documents cited in paragraph 51, see the School's  
22 response to that paragraph. Except as expressly admitted herein, the School denies the allegations  
23 in paragraph 47.

24 48. The School admits that Executive Vice President of Operations, Bob Bosic, wrote in a  
25 November 30, 2011 e-mail quoted by the Government in paragraph 48 that: "Successfully placing  
26 our students in quality jobs is extremely important to [the School]. Our students come to us  
27 primarily to gain skills and find a position that will help them launch a successful career." This  
28 statement reflects the School's long-standing and continued commitment to the success of its



1 graduates. The School admits that a 2012 marketing study on student enrollment decisions at  
2 Everest campuses showed that for some students, those decisions were driven primarily by  
3 “affordability & placement concerns,” while other students were “more driven by programmatic  
4 virtues.” Except as expressly admitted herein, the School denies the allegations in paragraph 48.

5 49. The School admits that it issues standardized disclosures for each campus. These  
6 disclosures are related to, among other things, job placement, in order to assist prospective  
7 students in making the best educational decision for themselves with the help of their trusted  
8 advisors. The School encourages prospective students to visit and tour a campus prior to  
9 enrollment and to bring family and trusted advisors with them. The School denies that it makes  
10 these disclosures to “help sell its programs to prospective students” as alleged by the Government  
11 in paragraph 49. While such disclosures may benefit a student’s informed enrollment decision,  
12 their existence and content are mandated by the United States Department of Education’s Program  
13 Integrity Rules and the State of California’s Bureau for Private Postsecondary Education. Thus,  
14 the School makes these disclosures to assist students and to comply with requirements put in place  
15 by Government agencies. The School admits that the standardized disclosures “contain placement  
16 rates for each program” where such information is available. Except as expressly admitted herein,  
17 the School denies the allegations in paragraph 49.

18 50. The School admits that published placement rates for some cohorts and programs are  
19 accurately as high as 100 percent. The School’s enrollment documents, catalog and training to  
20 admissions representatives are unmistakably clear that post-graduation placement is not  
21 guaranteed. The School collects information to support its disclosures as is prudent and required  
22 by regulatory agencies. The School is without knowledge or information sufficient to form a  
23 belief as to the truth or falsity of the allegation about the beliefs of prospective students in  
24 paragraph 50 and denies the allegations on that basis. Except as expressly admitted herein, the  
25 School denies the allegations in paragraph 50.

26 51. The School denies the out-of-context and intentionally-misleading allegations in  
27 paragraph 51.

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1 a. The School’s Executive Leadership Team meets periodically to discuss strategic  
2 initiatives and plans. During these strategic planning sessions, the leadership  
3 engages in frank discussions of potential issues the School faces. The School  
4 admits that CEO Jack Massimino circulated a 64-page presentation prior to the  
5 team meeting in September 2011. The school admits that, in the context of a series  
6 of slides discussing Government funding, the presentation includes one slide titled  
7 “Implications,” with the following text: “We had a [cohort default rate] problem  
8 and fixed it. We had a retention compliance problem and got back into compliance.  
9 We have a placement compliance problem now *and need to get back into*  
10 *compliance*. Do we need to execute against standards higher than just  
11 compliance?” (emphasis added). The concerns expressed in this slide about  
12 placement compliance refer to the fact that the School had too many programs on  
13 placement reporting status with its accreditors—meaning that in a challenging  
14 employment environment amid the worst recession in generations, School  
15 leadership was concerned about not placing a sufficient number of its graduates.  
16 This slide does not, as the Government insinuates, mean that the School’s  
17 leadership believed that the School had issues with the falsification of student  
18 placements. Except as expressly admitted herein, the School denies the allegations  
19 in paragraph 51(a).

20 b. The School admits that by letter dated December 7, 2011, ACCSC granted Everest  
21 College Hayward a renewal of accreditation for five years subject to a single  
22 stipulation. The School admits that the selectively, and misleadingly, quoted  
23 portions of the ACCSC communications are part of a broader dialogue between the  
24 School and ACCSC related to the renewal of Hayward’s accreditation. What the  
25 Government fails to mention is that the School provided ACCSC with  
26 documentation showing that the placements with Select Staffing were paid,  
27 sustainable, appropriate based on the educational objectives of the Medical  
28 Assistant diploma program, aligned with the objectives of and directly related to

1 that program. These were not just single-day or two-day assignments, but rather  
2 repeated work at varying health fairs throughout the Bay Area. Such variety and  
3 flexible scheduling are appealing characteristics of employment to some graduates.  
4 Further, ACCSC accepted the documentation regarding the sustainable nature of  
5 the placements with Select Staffing, removed the stipulation and on March 6, 2013,  
6 provided written notice that the stipulation had been satisfied. Except as expressly  
7 admitted herein, the School denies the allegations in paragraph 51(b).

8 c. The School admits that Executive Vice President of Operations, Bob Botic and  
9 West Division President Nicole Carnagey exchanged a series of e-mails on  
10 February 10, 2012 about job placement issues at Everest College Hayward and  
11 Everest College San Francisco. This e-mail discussion demonstrates that  
12 leadership moves swiftly and decisively to deal with any alleged irregularities. The  
13 Government fails to include that the questionable student placements were  
14 investigated, removed and never reported to accreditors or included on a student  
15 disclosure form. Except as expressly admitted herein, the School denies the  
16 allegations in paragraph 51(c).

17 d. The School admits that an Unannounced Compliance Audit Report for Everest  
18 College San Francisco covering the period from July 1, 2011 to March 3, 2012 was  
19 circulated by e-mail to the School's senior executives and management on March  
20 19, 2012. Unannounced compliance audits are regularly conducted by the School  
21 to promote compliant, ethical behavior and to identify and remedy irregularities.  
22 Such self-critical analysis is a hallmark of the School's efforts to do what is right  
23 by students and to comply with multiple layers of regulation—an effort the  
24 Government seeks to punish. Internal audit reports such as this are routinely  
25 circulated to senior executives and management as part of the School's effort to  
26 demonstrate to the campuses the importance of these compliance audits. The  
27 School admits that the report includes a finding that Career Services was missing  
28 employment verification forms for eight of fifteen students randomly sampled

1 during the audit. The audit report does not include a finding that those students  
2 were not in fact placed, only that some hard-copy documentation was missing from  
3 the student files. The Government omits the report's finding of exceptions in only  
4 2.03% of the campus's Career Services Department. Except as expressly admitted  
5 herein, the School denies the allegations in paragraph 51(d).

6 e. The School admits that a 69-page document titled "Quarter 3 Compliance Review:  
7 EOU Divisional" was e-mailed to Executive Vice President David Poldoian on  
8 April 13, 2013. The document is a summary of a self-audit conducted to promote  
9 compliance with accreditor, governmental and auditor standards. The School  
10 denies that the document shows "a placement file error rate of 53.6 percent to 70.6  
11 percent." The Government's deceptive quotation is highlighted by: a) the  
12 document itself identifying that the percentages are based on the measurement of  
13 individual *attributes* and not *files*; and b) the quoted page clearly indicating the vast  
14 majority of findings relate, not to placement, but to retention of students in various  
15 programs. The page of the presentation from which the Government has plucked  
16 these percentages does not even include the words "placement" or "placement file."  
17 Not one of the findings relates to an improper placement. Except as expressly  
18 admitted herein, the School denies the allegations in paragraph 51(e).

19 f. The School admits that Executive Vice President of Operations Bob Botic sent an  
20 e-mail containing the language quoted in paragraph 51(f). Contrary to the  
21 Government's aspersions, the e-mail shows that the School's executives are  
22 focused on continually improving internal processes and addressing and resolving  
23 audit issues that come to their attention.

24 g. The School admits that Executive Vice President of Operations Bob Botic sent an  
25 e-mail attaching an eleven-page presentation containing the language quoted in  
26 paragraph 51(g). The presentation is a summary of a call between campus and  
27 regional representatives and Michelle Reed, the Vice President of Compliance. On  
28 that call, the campus representatives expressed their frustration about the time

1 required for the Compliance Employment Verification Team to re-confirm job  
2 placements made by the campuses. Contrary to the Government's insinuation, at  
3 this time the School had a comprehensive written policy on placements (RA023) in  
4 addition to the long-standing accreditor guidelines defining job placements. The  
5 definitional issue resulted not from the absence of guidelines, but rather multiple,  
6 competing and contradictory definitions from different sources combined with the  
7 inherent subjectivity in determining a placement. The presentation reflects a  
8 discussion about suggestions for methods to streamline second-pass verification so  
9 that it did not create bottlenecks for the campuses or dissatisfaction among  
10 employers. Far from reflecting a lack of verification as the Government suggests,  
11 the document includes claims that employers were being contacted *from three up to*  
12 *six times* to confirm placements.

13 h. The School admits that on May 18, 2012, Western Division President Nicole  
14 Carnagey and Executive Vice President of Operations Bob Busic engaged in the e-  
15 mail exchange excerpted by the Government in paragraph 51(h). In this e-mail,  
16 Carnagey and Busic discussed the fact that Everest Renton had failed an internal  
17 audit. The type of forms required internally by the School for record-keeping in  
18 student files was changed in the middle of the audit year, causing some confusion  
19 on campuses about the correct form to use. At the Renton campus student data was  
20 re-recorded on the newer version of those forms for dates before that version of the  
21 form was created. This irregularity was found and reported by internal audit,  
22 leading to a failing score for the campus. To the extent that the Government's  
23 characterization in paragraph 51(h) differs from the plain language of the e-mail  
24 exchange, the School denies those allegations. Except as expressly admitted  
25 herein, the School denies the allegations in paragraph 51(h).

26 i. The School admits that on June 14, 2012, Executive Vice President of Operations  
27 Bob Busic forwarded the e-mail message selectively quoted by the Government.  
28 The forwarded message is a preliminary assessment of needs to support an

1 information-technology platform to, among other things, better link the campuses  
2 with the School's placement verification team. The author of the message, Greg  
3 McHugh, is an outside consultant who had just started working to understand the  
4 project needs and was unfamiliar at this time with the operational details of  
5 placement verification and re-verification and the relevant policy guidance  
6 documents. The School, at this time, had a written placement evaluation policy  
7 (RA023), placement definitions from accreditors and a suite of supporting materials  
8 to help the School's employees assess the validity of student job placements. The  
9 exchange clearly denotes continuous improvement, not danger of falsified  
10 placements. To the extent that the Government's characterization in paragraph  
11 51(i) differs from the plain language of the e-mail exchange, or selectively omits  
12 information that is necessary to convey the context and full meaning of the e-mail  
13 exchange, the School denies those allegations. Except as expressly admitted  
14 herein, the School denies the allegations in paragraph 51(i).

15 j. The School admits that on July 13, 2012, Vice President of Compliance Michelle  
16 Reed e-mailed Executive Vice President Beth Wilson about some irregularities that  
17 Reed had investigated with regards to self-employed job placements at the Long  
18 Beach Wyotech campus. The School discovered and investigated these placement  
19 issues through its internal controls, and, after a rigorous review of records, removed  
20 a number of job placements on its own initiative. Contrary to the Government's  
21 unfounded assertion, the removed students were not part of a cohort that was  
22 reported in student disclosures published in July 2012, and thus, contrary to the  
23 Government's insinuation, there was no need for an amendment of any disclosures.  
24 The School admits that the July 2012 student disclosures for the Long Beach  
25 Wyotech campus have not been amended as there was no need to do so. To the  
26 extent that the Government's characterization in paragraph 51(j) differs from the  
27 plain language of Ms. Reed's e-mail, the School denies those allegations. Except  
28 as expressly admitted herein, the School denies the allegations in paragraph 51(j).

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k. The School admits that Christian Dieckmann, Assistant Vice President of Student Outcomes, sent the e-mail partially and misleadingly quoted in paragraph 51(k). The Government fails to quote the next line, which states that directors of career services “and campuses have been requesting that we provide more clarity on what procedures to follow in order to stay consistent with current Internal Audit and Compliance requirements.” In other words, the operations and audit/compliance divisions of the School were working together to ensure that campuses could understand and comply with the requirements of, among other things, the Compliance Employment Verification Team. This e-mail reflects the School’s commitment to continuous improvement in processes. The standard operating procedures discussed in the email were additional documents to be created on top of already-existing standards for job placement.

l. The School admits that the results of a third-party audit conducted by Hyper Core Solutions on behalf of ACCSC were e-mailed to Executive Vice President Beth Wilson and Chief Academic Officer Richard Simpson on August 28, 2012. The School submitted responses and supporting documentation from its files to ACCSC for each of the student job placements identified by Hyper Core. ACCSC accepted the School’s submissions without any further requests for information. The audit report and related communications speak for themselves and demonstrate the challenges of employment verification, particularly by those with undeveloped skills conducting verifications long after the placement was made. To the extent that the Government’s characterization in paragraph 51(l) differs from the plain language of the audit report and accompanying communications, or selectively omits information necessary to convey the context and full meaning of these communications, the School denies those allegations. Except as expressly admitted herein, the School denies the allegations in paragraph 51(l).

52. The School denies the allegations in paragraph 52.

1           **The School's Accurate Statements to Investors**

2           53.     The School denies the allegations in paragraph 53.

3           a.     The School admits the allegation in paragraph 53(a) that quotes a statement  
4           contained in the School's 2012 Annual Report (Form 10-K).

5           b.     The School admits that the statement "CY 11 placement 68.1% vs. 67.6% in CY  
6           10" appears in investor presentations dated August 20, 2012 and October 31, 2012.  
7           This statement is included as a sub-bullet on a slide that is identical in both twenty-  
8           three page presentations, titled "Focused on Student Perspectives." Except as  
9           expressly admitted herein, the School denies the allegations in paragraph 53(b).

10          c.     The School admits that on January 24, 2013 it completed a Registration Statement  
11          (Form S-8), for the School's Employee Stock Purchase Plan, and that the S-8  
12          incorporated by reference, among other things, the School's 2012 Annual Report  
13          (Form 10-K). The Form S-8 is a document that speaks for itself.

14          d.     The School admits that presentations prepared for investors and dated January 31,  
15          2013, March 11, 2013, and April 30, 2013 include a slide with a bar chart that  
16          shows 48,930 "eligible graduates by cohort" for 2011, with 33,316 "eligible  
17          graduates placed in field" for 2011, and that the School's CEO used the March 11,  
18          2013 document as part of a presentation to investors. Except as expressly admitted  
19          herein, the School denies the allegations in paragraph 53(d).

20          e.     The School admits the allegations in paragraph 53(e).

21          f.     The School admits the allegations in paragraph 53(f).

22          54.     The School denies that statements made about the 2011 graduation cohort were false  
23          when made and that its senior executives made knowing false statements. The School's own data  
24          and files indicate that the statements are materially accurate. The School denies the allegations in  
25          paragraph 54.

26          a.     The School admits that on July 31, 2012 Executive Vice President Beth Wilson  
27          exchanged communications by e-mail about excluding graduates from closed  
28          campuses in calculating placement rates. The School denies that any such decision



1 or instruction was made “to bring the placement rate higher.” The teach-outs of the  
2 campuses at Fife, Washington, Ft. Lauderdale, Florida, Chicago, Illinois, Decatur,  
3 Georgia and Arlington, Texas were disclosed to investors in the School’s 2012  
4 Form 10-K, among other places. Except as expressly admitted herein, the School  
5 denies the allegations in paragraph 54(d).

- 6 b. The School denies the allegations in paragraph 54(b) and does not believe it has  
7 included placements from outside the cohort period.
- 8 c. The Government’s allegations in paragraph 54(c) are vague and ambiguous as to  
9 what it means by a “substantial number of double-counted placements.” The  
10 School believes that it properly counts placements. As such, the School is without  
11 knowledge or information sufficient to form a belief as to the truth or falsity of the  
12 Government’s allegations in paragraph 54(c) and denies them on that basis.
- 13 d. The School admits that on November 16, 2012, Michelle Reed e-mailed a  
14 spreadsheet related to the transition of the School’s Compliance Employment  
15 Verification Team to a new database management system for tracking their second-  
16 level re-verifications of student job placements or waivers. Such re-verification is  
17 not required and is an example of the School going above and beyond to promote  
18 accuracy in record keeping and reporting. As required by ACCSC and ACICS,  
19 each of the student job placements or waivers listed in the spreadsheet cited by the  
20 Government had already been verified at least once by a campus-level career  
21 services representative who assisted the student in finding employment. No further  
22 verification was required by those accrediting agencies or any other regulator. The  
23 spreadsheet relied upon by the Government for its false accusation simply identifies  
24 the open student verification files at the time of database transition that had neither  
25 been confirmed nor refuted by the Compliance Employment Verification Team.  
26 Except as expressly admitted herein, the School denies the allegations in paragraph  
27 54(d).

28 55. The School denies the allegations in paragraph 55.

1 56. The School denies the allegations in paragraph 56 particularly in light of the reliance  
2 on the misleadingly misquoted documents from paragraph 51.

3 57. The School denies the allegations in paragraph 57.

4 58. The allegations in paragraph 58 are conclusions of law to which no response is  
5 required. To the extent that they may be construed as factual allegations, the School denies the  
6 allegations in paragraph 58.

7 a. To the extent that the statements in paragraph 58(a) are construed as allegations and  
8 not argument or conclusions of law, the School denies the allegations in paragraph  
9 58(a).

10 b. The School admits that the ACCSC and ACICS have minimum accreditation  
11 placement rates which are not the same as the benchmark rates. The standards  
12 quoted by the Government in paragraph 58(b) are not minimum compliance  
13 standards although the Government implies they are. To the extent that the other  
14 statements in paragraph 58(b) are construed as allegations and not argument or  
15 conclusions of law, the School denies the allegations in paragraph 58(b).

16 c. The School admits that the cohort default rate (CDR) is a measure used by some  
17 regulators. To the extent that the other statements in paragraph 58(c) are construed  
18 as allegations and not argument or conclusions of law, the School denies the  
19 allegations in paragraph 58(c).

20 d. To the extent that the statements in paragraph 58(d) are construed as allegations  
21 and not argument or conclusions of law, the School denies the allegations in  
22 paragraph 58(d).

23 59. The School sets high standards for itself in serving students. When considerable effort  
24 has been expended and those standards are not met and students are less likely to obtain  
25 employment in a certain city, then the School will close the campus. The e-mail cited in  
26 paragraph 59 speaks for itself. The Government's allegations in paragraph 59 about it being the  
27 School's "strategy" to close schools imply that the School is attempting to manipulate placement  
28

1 figures when the School is actually acting in the students’ best interest for a particular geography.  
2 Except as expressly admitted herein, the School denies the allegations in paragraph 59.

3 **Internet Advertising**

4 60. The School admits the allegations in paragraph 60.

5 61. The School denies the allegations in paragraph 61. Many prospective students  
6 searching for more information about educational opportunities do not know with specificity what  
7 programs interest them. They may begin their search broadly or specifically based on a recent  
8 doctor’s visit or following an ultrasound or X-ray. The School provides such prospective students  
9 with the opportunity to learn more about its allied health offerings in the clearly marked, shaded  
10 section labeled “Ads related to” in Google searches. The landing pages accessed from these ads  
11 clearly identify the programs offered by the School’s campuses. These ads and the associated web  
12 pages are not misleading. Indeed, not a single prospective student who clicked on the ads attached  
13 as Exhibit A to the Complaint actually started at any School.

14 62. The School is without knowledge or information sufficient to form a belief as to the  
15 truth or falsity of the allegations of paragraph 62 and denies the allegations on that basis. To the  
16 best of the School’s knowledge, no students have been “routinely tricked” by related ads as stated  
17 in paragraph 61.

18 63. The School denies the allegations in paragraph 63. The School’s enrollment process is  
19 designed to be low pressure and to encourage prospective students to ask many questions, tour the  
20 campus and bring their trusted advisors to assist them. A simple review of the Government  
21 Accountability Office recordings of the School’s admissions representatives reveals how  
22 unthreatening, low pressure and information-filled the enrollment process is. The School trains its  
23 admissions representatives to be open, honest and truthful in their interactions with potential  
24 students.

25 64. The School denies the allegations in paragraph 64. The School trains its employees to  
26 be honest and truthful in conversations with everyone. It does not discipline employees, including  
27 call center employees, for being honest.  
28

1           **Military Advertising**

2           65.     The School denies the allegations in paragraph 65.

3           66.     The School denies the allegation in paragraph 66. The School denies that the Armed  
4 Services seals were displayed “prominently” or implied any endorsement by the various branches.

5           67.     The School values its military students, providing quality educational experiences with  
6 the respect veterans and their family members deserve. All of the School’s California Everest and  
7 Heald campuses are recognized by the Department of Veteran’s Affairs for participation in the  
8 Yellow Ribbon Program and are recognized by organizations such as Military Friendly Schools,  
9 which employs a vigorous vetting process. The School admits that the official seals of the United  
10 States Department of the Army, the United States Department of the Navy, the United States  
11 Department of the Air Force, the United States Marine Corps and the United States Coast Guard  
12 (collectively, “Armed Services”) were displayed the web site www.healdmilitary.com from 2012  
13 through April 2013. The School denies that the Armed Services seals were displayed  
14 “prominently” or implied any endorsement by the various branches. The Government’s  
15 allegations in paragraph 67 are vague and ambiguous as to where and how Armed Forces seals  
16 “continue to be prominently displayed in online ads run by Heald.” The School denies that it  
17 continues to use the Armed Services seals in online advertisements, and denies that the example  
18 advertisement attached as Exhibit B to the Complaint is an advertisement “run by” or otherwise  
19 authorized by the School. Except as expressly admitted herein, the School denies the allegations  
20 in paragraph 67.

21           68.     The Government’s allegations in paragraph 68 are vague and ambiguous as to what  
22 constitutes an “express connection with or approval by” the Armed Services. As such, the School  
23 is without knowledge or information sufficient to form a belief as to the truth or falsity of the  
24 Government’s allegations in paragraph 68. The School is committed to meeting the needs of  
25 veterans of the Armed Services, is a participant in the Yellow Ribbon Program and has numerous  
26 programs in California and nationally that have been approved by Veterans Administration.  
27 Except as expressly admitted herein, the School denies the allegations in paragraph 68.

28           69.     The allegation in paragraph 69 is a conclusion of law to which no response is required.

1                   **Enrollment Agreements**

2           70.     The School admits that its current enrollment agreements contain clauses substantially  
3 identical to the language cited in paragraph 70, noting that each such clause—including the one  
4 quoted—also contains an opt-out provision for each student. The other allegations in paragraph  
5 70 are conclusions of law to which no response is required. Except as expressly admitted herein,  
6 the School denies the allegations in paragraph 70.

7           71.     The allegations in paragraph 71 are conclusions of law to which no response is  
8 required.

9           72.     The allegations in paragraph 72 are conclusions of law to which no response is  
10 required.

11                                   **FIRST CAUSE OF ACTION**

12                                   **(ALL DEFENDANTS)**

13           73.     No responsive pleading is required to paragraph 73. The School realleges and  
14 incorporates its answer to the paragraphs enumerated in paragraph 73.

15           74.     The allegations in paragraph 74 are conclusions of law to which no response is  
16 required. The School realleges and incorporates its answer to the paragraphs enumerated in  
17 paragraph 74. Except as expressly admitted herein, the School denies the allegations in paragraph  
18 74.

- 19                 a. The School denies the allegations in paragraph 74(a). The School realleges and  
20                         incorporates its answers to paragraphs 47 to 52.
- 21                 b. The School denies the allegations in paragraph 75(b). The School realleges and  
22                         incorporates its answers to paragraphs 60 to 64.
- 23                 c. The School denies the allegations in paragraph 75(c). The School realleges and  
24                         incorporates its answers to paragraphs 65 to 69.

25           75.     The School denies the allegations in paragraph 75.

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1 **SECOND CAUSE OF ACTION**

2 **(ALL DEFENDANTS)**

3 76. No responsive pleading is required to paragraph 76. The School realleges and  
4 incorporates its answer to the paragraphs enumerated in paragraph 76.

5 77. The allegations in paragraph 77 are conclusions of law to which no response is  
6 required. To the extent that they may be construed as factual allegations, the School denies the  
7 allegations in paragraph 77.

8 78. The allegations in paragraph 78 are conclusions of law to which no response is  
9 required.

10 a. The allegations in paragraph 78(a) are conclusions of law to which no response is  
11 required. To the extent that they may be construed as factual allegations, the  
12 School denies the allegations in paragraph 78(a).

13 b. The allegations in paragraph 78(b) are conclusions of law to which no response is  
14 required. To the extent that they may be construed as factual allegations, the  
15 School denies the allegations in paragraph 78(b).

16 c. The allegations in paragraph 78(c) are conclusions of law to which no response is  
17 required. To the extent that they may be construed as factual allegations, the  
18 School denies the allegations in paragraph 78(c).

19 d. The allegations in paragraph 78(d) are conclusions of law to which no response is  
20 required. To the extent that they may be construed as factual allegations, the  
21 School denies the allegations in paragraph 78(d).

22 e. The allegations in paragraph 78(e) are conclusions of law to which no response is  
23 required. To the extent that they may be construed as factual allegations, the  
24 School denies the allegations in paragraph 78(e).

25 f. The allegations in paragraph 78(f) are conclusions of law to which no response is  
26 required. To the extent that they may be construed as factual allegations, the  
27 School denies the allegations in paragraph 78(f).  
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1 g. The allegations in paragraph 78(g) are conclusions of law to which no response is  
2 required. To the extent that they may be construed as factual allegations, the  
3 School denies the allegations in paragraph 78(g).

4 79. The allegations in paragraph 79 are conclusions of law to which no response is  
5 required.

6 a. The allegations in paragraph 79(a) are conclusions of law to which no response is  
7 required. The School realleges and incorporates its answer to the paragraphs  
8 enumerated in paragraph 79(a).

9 b. The allegations in paragraph 79(b) are conclusions of law to which no response is  
10 required. The School realleges and incorporates its answer to the paragraphs  
11 enumerated in paragraph 79(b).

12 c. The allegations in paragraph 79(c) are conclusions of law to which no response is  
13 required. The School realleges and incorporates its answer to the paragraphs  
14 enumerated in paragraph 79(c).

15 d. The allegations in paragraph 79(d) are conclusions of law to which no response is  
16 required. The School realleges and incorporates its answer to the paragraphs  
17 enumerated in paragraph 79(d).

18 e. The allegations in paragraph 79(e) are conclusions of law to which no response is  
19 required. The School realleges and incorporates its answer to the paragraphs  
20 enumerated in paragraph 79(e).

21 f. The allegations in paragraph 79(f) are conclusions of law to which no response is  
22 required. The School realleges and incorporates its answer to the paragraphs  
23 enumerated in paragraph 79(f).

24 g. The allegations in paragraph 79(g) are conclusions of law to which no response is  
25 required. The School realleges and incorporates its answer to the paragraphs  
26 enumerated in paragraph 79(g).

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1 h. The allegations in paragraph 79(h) are conclusions of law to which no response is  
2 required. The School realleges and incorporates its answer to the paragraphs  
3 enumerated in paragraph 79(h).

- 4 80. The allegation in paragraph 80 is a conclusion of law to which no response is required.
- 5 a. The School is without knowledge or information sufficient to form a belief as to the  
6 truth or falsity of the allegations of paragraph 80(a) and denies the allegations on  
7 that basis.
- 8 b. The School is without knowledge or information sufficient to form a belief as to the  
9 truth or falsity of the allegations of paragraph 80(b) and denies the allegations on  
10 that basis.
- 11 c. The School is without knowledge or information sufficient to form a belief as to the  
12 truth or falsity of the allegations of paragraph 80(c) and denies the allegations on  
13 that basis.
- 14 d. The allegations in paragraph 80(d) include conclusions of law to which no response  
15 is required. The School is without knowledge or information sufficient to form a  
16 belief as to the truth or falsity of the factual allegations of paragraph 80(d) and  
17 denies the allegations on that basis.
- 18 e. The School denies the allegations in paragraph 80(e).

19 81. The allegations in paragraph 81 are conclusions of law to which no response is  
20 required.

21 **THIRD CAUSE OF ACTION**

22 **(CORINTHIAN COLLEGES, INC.)**

23 82. No responsive pleading is required to paragraph 82. The School realleges and  
24 incorporates its answer to the paragraphs enumerated in paragraph 82.

25 83. The California Corporations Code speaks for itself, and the interpretation of the code is  
26 a matter of law as to which no response is required.

27 84. The School admits that the common stock of Corinthian Colleges, Inc. is traded on the  
28 Nasdaq National Market System. The remaining allegations are conclusions of law to which no



1 response is required. Except as expressly admitted herein, the School denies the allegations in  
2 paragraph 84.

3 85. The School admits that on February 1, 2013 it filed a Registration Statement (Form S-  
4 8), for the School's Employee Stock Purchase Plan. The remaining allegations are conclusions of  
5 law to which no response is required. Except as expressly admitted herein, the School denies the  
6 allegations in paragraph 85.

7 86. The allegations in paragraph 86 are conclusions of law to which no response is  
8 required.

9 87. The allegations in paragraph 87 are conclusions of law to which no response is  
10 required.

11 88. The allegations in paragraph 88 are conclusions of law to which no response is  
12 required. To the extent that they may be construed as factual allegations, the School denies the  
13 allegations in paragraph 88.

14 89. The allegations in paragraph 89 are conclusions of law to which no response is  
15 required. To the extent that they may be construed as factual allegations, the School denies the  
16 allegations in paragraph 89.

17 90. The School denies that, as alleged in paragraph 90, it misrepresented "the job  
18 placement rate of its graduates; the methodology it used to calculate the job placement rate of its  
19 graduates; the number of graduates it placed; the number of eligible graduates; the reliability of its  
20 placement and placement verification process; the stringency of its definitions regarding job  
21 placements; its compliance with accreditor mandated policies; and its compliance with its own  
22 policies." The remaining allegations in paragraph 90 are conclusions of law to which no response  
23 is required. Except as expressly admitted herein, the School denies the allegations in paragraph  
24 90.

25 **FOURTH CAUSE OF ACTION**

26 **(CORINTHIAN COLLEGES, INC.)**

27 91. No responsive pleading is required to paragraph 91. The School realleges and  
28 incorporates its answer to the paragraphs enumerated in paragraph 91.

1 92. The California Corporations Code speaks for itself, and the interpretation of the code is  
2 a matter of law as to which no response is required.

3 93. The Government's allegations in paragraph 93 are vague, ambiguous and unintelligible  
4 as to whether it asserts that "others" or the School's stock are traded "on the Nasdaq National  
5 Market System." As such, the School is without knowledge or information sufficient to form a  
6 belief as to the truth or falsity of the Government's allegations in paragraph 93 about "others" and  
7 denies them on that basis. The remaining allegations are conclusions of law to which no response  
8 is required. Except as expressly admitted herein, the School denies the allegations in paragraph  
9 93.

10 94. The School admits that on February 1, 2013 it filed a Registration Statement (Form S-  
11 8), for the School's Employee Stock Purchase Plan. The remaining allegations are conclusions of  
12 law to which no response is required. Except as expressly admitted herein, the School denies the  
13 allegations in paragraph 94.

14 95. The allegations in paragraph 95 are conclusions of law to which no response is  
15 required.

16 96. The allegations in paragraph 96 are conclusions of law to which no response is  
17 required.

18 97. The allegations in paragraph 97 are conclusions of law to which no response is  
19 required. To the extent that they may be construed as factual allegations, the School denies the  
20 allegations in paragraph 97.

21 98. The allegations in paragraph 98 are conclusions of law to which no response is  
22 required. To the extent that they may be construed as factual allegations, the School denies the  
23 allegations in paragraph 98.

24 99. The School denies that, as alleged in paragraph 99, it misrepresented "the job  
25 placement rate of its graduates; the methodology it used to calculate the job placement rate of its  
26 graduates; the number of graduates it placed; the number of eligible graduates; the reliability of its  
27 placement and placement verification process; the stringency of its definitions regarding job  
28 placements; its compliance with accreditor mandated policies; and its compliance with its own

1 policies.” The remaining allegations in paragraph 99 are conclusions of law to which no response  
2 is required. Except as expressly admitted herein, the School denies the allegations in paragraph 99  
3 100. The School denies the allegations made in paragraph 100.

4 **FIFTH CAUSE OF ACTION**  
5 **(CORINTHIAN SCHOOLS, INC.)**

6 101. No responsive pleading is required to paragraph 101. The School realleges and  
7 incorporates its answer to the paragraphs enumerated in paragraph 101.

8 102. The School admits that on July 31, 2007 the Los Angeles Superior Court entered a  
9 final judgment pursuant to a stipulation between the parties in *People v. Corinthian Schools, Inc.,*  
10 *et al.*, No. BC374999. The text of the final judgment speaks for itself. To the extent that the  
11 interpretation of the final judgment is an issue of law, no response is required. To the extent that  
12 the Government’s characterization in paragraph 102 differs from the terms and correct  
13 interpretation of the final judgment, the School denies those allegations. Except as expressly  
14 admitted herein, the School denies the allegations in paragraph 102.

15 a. The text of the final judgment speaks for itself. To the extent that the interpretation  
16 of the final judgment is an issue of law, no response is required. To the extent that  
17 the Government’s characterization in paragraph 102(a) differs from the terms and  
18 correct interpretation of the final judgment, the School denies those allegations.

19 Except as expressly admitted herein, the School denies the allegations in paragraph  
20 102(a).

21 b. The text of the final judgment speaks for itself. To the extent that the interpretation  
22 of the final judgment is an issue of law, no response is required. To the extent that  
23 the Government’s characterization in paragraph 102(b) differs from the terms and  
24 correct interpretation of the final judgment, the School denies those allegations.

25 Except as expressly admitted herein, the School denies the allegations in paragraph  
26 102(b).

27 c. The text of the final judgment speaks for itself. To the extent that the interpretation  
28 of the final judgment is an issue of law, no response is required. To the extent that

1 the Government's characterization in paragraph 102(c) differs from the terms and  
2 correct interpretation of the final judgment, the School denies those allegations.  
3 Except as expressly admitted herein, the School denies the allegations in paragraph  
4 102(c).

5 103. The School denies the allegations in paragraph 103.

6 a. The School denies the allegations in paragraph 103(a). The School realleges and  
7 incorporates its answers to paragraphs 47 to 52.

8 b. The School denies the allegations in paragraph 103(b). The School realleges and  
9 incorporates its answers to paragraphs 60 to 64.

10 c. The School denies the allegations in paragraph 103(c). The School realleges and  
11 incorporates its answers to paragraphs 65 to 69.

12 104. The allegations in paragraph 104 are conclusions of law to which no response is  
13 required.

14 **SIXTH CAUSE OF ACTION**

15 **(CORINTHIAN SCHOOLS, INC.)**

16 105. No responsive pleading is required to paragraph 105. The School realleges and  
17 incorporates its answer to the paragraphs enumerated in paragraph 105.

18 106. The School admits that on July 31, 2007 the Los Angeles Superior Court entered a  
19 final judgment pursuant to a stipulation between the parties in *People v. Corinthian Schools, Inc.,*  
20 *et al.*, No. BC374999. The text of the final judgment speaks for itself. To the extent that the  
21 interpretation of the final judgment is an issue of law, no response is required. To the extent that  
22 the Government's characterization in paragraph 106 differs from the terms and correct  
23 interpretation of the final judgment, the School denies those allegations. Except as expressly  
24 admitted herein, the School denies the allegations in paragraph 106.

25 a. The text of the final judgment speaks for itself. To the extent that the interpretation  
26 of the final judgment is an issue of law, no response is required. To the extent that  
27 the Government's characterization in paragraph 106(a) differs from the terms and  
28 correct interpretation of the final judgment, the School denies those allegations.

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Except as expressly admitted herein, the School denies the allegations in paragraph 106(a).

b. The text of the final judgment speaks for itself. To the extent that the interpretation of the final judgment is an issue of law, no response is required. To the extent that the Government’s characterization in paragraph 106(b) differs from the terms and correct interpretation of the final judgment, the School denies those allegations.

Except as expressly admitted herein, the School denies the allegations in paragraph 106(b).

c. The text of the final judgment speaks for itself. To the extent that the interpretation of the final judgment is an issue of law, no response is required. To the extent that the Government’s characterization in paragraph 106(c) differs from the terms and correct interpretation of the final judgment, the School denies those allegations.

Except as expressly admitted herein, the School denies the allegations in paragraph 106(c).

107. The School denies the allegations in paragraph 107.

a. The School denies the allegations in paragraph 107(a). The School realleges and incorporates its answers to paragraphs 47 to 52.

b. The School denies the allegations in paragraph 107(b). The School realleges and incorporates its answers to paragraphs 60 to 64.

c. The School denies the allegations in paragraph 107(c). The School realleges and incorporates its answers to paragraphs 65 to 69.

108. The allegations in paragraph 108 are conclusions of law to which no response is required.

Except as expressly admitted in the preceding responsive paragraphs, the School denies the allegations in the Complaint.

1 **AFFIRMATIVE DEFENSES**

2 Without admitting or acknowledging that the School bears the burden of proof as to any of  
3 them, the School asserts the following affirmative defenses as to all causes of action:

4 **First Affirmative Defense**

5 **(Failure to State a Claim)**

6 109. The Complaint fails to state a claim upon which relief may be granted.

7 **Second Affirmative Defense**

8 **(Statute of Limitations)**

9 110. The Complaint is barred in whole or in part by the statute of limitations prescribed by,  
10 but not limited to, Civil Code § 1783, Code of Civil Procedure §§ 337, 337.5(b), 338(a), 340(a),  
11 340(b), 343, 359, Business and Professions Code § 17208 and Corporations Code § 25506.

12 **Third Affirmative Defense**

13 **(Unclean Hands)**

14 111. The Complaint is barred because the Government has unclean hands with respect to the  
15 claims alleged therein, and particularly with regard to its attempts to enforce the stipulated  
16 judgment in *People v. Corinthian Schools, Inc., et al.*, No. BC374999 (Los Angeles Superior  
17 Court) after it has failed to distribute funds to students as required by that judgment.

18 **Fourth Affirmative Defense**

19 **(Laches)**

20 112. The Complaint is barred by the doctrine of laches.

21 **Fifth Affirmative Defense**

22 **(Waiver)**

23 113. The Complaint is barred by the doctrine of waiver.

24 **Sixth Affirmative Defense**

25 **(Mootness)**

26 114. The Complaint is moot in whole or in part.  
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**Seventh Affirmative Defense**

**(Ripeness)**

115. The Complaint is barred in whole or in part because the claims are not ripe for adjudication.

**Eighth Affirmative Defense**

**(Alternate Remedies Exist at Law)**

116. The Complaint is barred in whole or in part because the Government has adequate alternate remedies at law.

**Ninth Affirmative Defense**

**(Collateral Estoppel and Res Judicata)**

117. The Complaint is barred in whole or in part by the doctrines of collateral estoppel and res judicata.

**Tenth Affirmative Defense**

**(Judicial Estoppel)**

118. The Complaint is barred in whole or in part by the doctrine of judicial estoppel.

**Eleventh Affirmative Defense**

**(Standing)**

119. The Government lacks standing to bring the claims asserted.

**Twelfth Affirmative Defense**

**(No Damages)**

120. The Complaint fails to plead facts showing that the Government has suffered any cognizable damages.

**Thirteenth Affirmative Defense**

**(No Injury)**

121. The Complaint fails to plead facts showing that the Government has suffered any cognizable injury.

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**Fourteenth Affirmative Defense**

**(Lack of Jurisdiction)**

122. This Court lacks jurisdiction over this Complaint for reasons identified in other affirmative defenses and because Judge Kenneth R. Freeman retained jurisdiction over the Final Judgment in *People v. Corinthian Schools, Inc., et al.*, No. BC374999 (Los Angeles Superior Court).

**Fifteenth Affirmative Defense**

**(Discretion Not to Exercise Jurisdiction)**

123. Even if this Court had jurisdiction, which it does not, it should decline to exercise jurisdiction here.

**Sixteenth Affirmative Defense**

**(Lack of Redressability)**

124. The Complaint is barred in whole or in part because any injury alleged by the Government cannot be redressed by the relief sought in the Complaint.

**Seventeenth Affirmative Defense**

**(Inconsistent Judgments)**

125. The Complaint is barred in whole or in part because it seeks to subject the School to inconsistent obligations under court orders.

**Eighteenth Affirmative Defense**

**(Equity)**

126. Principles of equity bar the Government from seeking the relief it request.

**Nineteenth Affirmative Defense**

**(Preemption)**

127. The Complaint is barred in whole or in part because it conflicts with or is preempted by federal law.



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**Twentieth Affirmative Defense**

**(Reservation)**

128. The School reserves the right to allege other affirmative defenses as they may become known during the course of discovery.

**PRAYER FOR RELIEF**

WHEREFORE, the School prays that the Government take nothing by the Complaint, that the requested injunctive and equitable relief be denied, that the School be awarded judgment in this action and costs of suit incurred herein, and for other such relief as the Court deems just and proper.

Dated: November 12, 2013

IRELL & MANELLA LLP  
John C. Hueston  
Brian J. Hennigan  
Andra B. Greene  
Khalidoun Shobaki

By:           /s/ John C. Hueston            
John C. Hueston (164921)  
Attorneys for Defendants

# **Exhibit A**

## Summary of insights about our prospects

Who they are	What they need
<ul style="list-style-type: none"><li>• Low self-esteem, few base hits</li></ul>	<ul style="list-style-type: none"><li>• Confident, capable, real adult, role model for kids</li></ul>
<ul style="list-style-type: none"><li>• Stuck, unable to see and plan well for future</li></ul>	<ul style="list-style-type: none"><li>• Someone who can show them how so they can gain independence</li></ul>
<ul style="list-style-type: none"><li>• Few people in their lives who care about them</li></ul>	<ul style="list-style-type: none"><li>• Encouragement, someone who believes in them</li></ul>
<ul style="list-style-type: none"><li>• Isolated</li></ul>	<ul style="list-style-type: none"><li>• Sense of belonging, place where they can succeed</li></ul>
<ul style="list-style-type: none"><li>• Authenticity rules!</li></ul>	<ul style="list-style-type: none"><li>• Don't BS me, tell it like it is</li></ul>
<ul style="list-style-type: none"><li>• Peers are most credible</li></ul>	<ul style="list-style-type: none"><li>• Trust is earned, not automatic</li></ul>
<ul style="list-style-type: none"><li>• Impatient, want quick solutions</li></ul>	<ul style="list-style-type: none"><li>• Can't afford to waste time, need quick solutions</li></ul>

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VERIFICATION

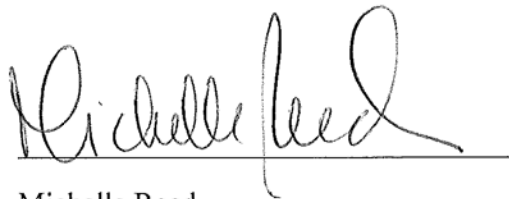
I, Michelle Reed, declare as follows:

I have read the forgoing THE SCHOOL'S VERIFIED ANSWER and know its contents.

I am employed by Corinthian Colleges, Inc., a party to this action, and am authorized to make this verification for and on its behalf. The facts stated in the foregoing document are true of my own knowledge except as to those matters which are stated on information and belief; as to those matters I am informed and believe that they are true.

Executed this 12th day of November, 2013, at Santa Ana, California.

I declare under penalty of perjury under the laws of the State of California that the foregoing is true and correct.



Michelle Reed

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**PROOF OF SERVICE**

I am employed in the County of Los Angeles, State of California. I am over the age of 18 and not a party to the within action. My business address is 1800 Avenue of the Stars, Suite 900, Los Angeles, California 90067-4276.

On November 12, 2013, at approximately 1:50 PM Pacific Time, I served the foregoing document described as **The School's Verified Answer** on each interested party, as follows:

Kamala D. Harris  
Frances T. Grunder  
Nicklas A. Akers  
Nicholas G. Campins  
California Department of Justice  
455 Golden Gate Avenue, Suite 11000  
San Francisco, CA 94102-7004

(BY ELECTRONIC FILING AND SERVICE) I posted the foregoing document on the Court's File & ServeXpress web site.

Executed on November 12, 2013, at Los Angeles, California.

I declare under penalty of perjury under the laws of the State of California that the foregoing is true and correct.

Khaldoun Shobaki  
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(Type or print name)

  
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(Signature)