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First Report of Duff & Phelps Canada  
Restructuring Inc.  
as Trustee in Bankruptcy of  
Everest Colleges Canada, Inc.

February 26, 2015

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Estate No.: 31-1963343

ONTARIO  
SUPERIOR COURT OF JUSTICE  
(COMMERCIAL LIST)

IN THE MATTER OF THE BANKRUPTCY OF  
EVEREST COLLEGES CANADA, INC.  
OF THE CITY OF TORONTO, IN THE PROVINCE OF ONTARIO

FIRST REPORT OF DUFF & PHELPS CANADA RESTRUCTURING INC.  
AS TRUSTEE IN BANKRUPTCY OF  
EVEREST COLLEGES CANADA, INC.

February 26, 2015

## 1.0 Introduction

1. On February 20, 2015, Everest Colleges Canada, Inc. ("ECC") and its wholly-owned subsidiary, Career Canada C.F.P. Limited ("Career Canada") (jointly, the "Companies"), made assignments in bankruptcy and Duff & Phelps Canada Restructuring Inc. ("D&P") was appointed as trustee in bankruptcy ("Trustee") of both bankrupt estates, subject to affirmation at the First Meeting of Creditors scheduled for March 11, 2015. Copies of the Certificates of Appointment dated February 20, 2015 issued by the Office of the Superintendent of Bankruptcy Canada are attached as Appendix "A".

### 1.1 Purposes of this Report

1. The purposes of this report ("Report") are to:
  - a) Provide background information about the Companies and these bankruptcy proceedings;
  - b) Provide the basis on which the Trustee believes it is critical and appropriate for it to be authorized by this Honourable Court to immediately disclaim ECC's real property leases (the "Leases") on February 27, 2015; and
  - c) Recommend that this Honourable Court issue an order authorizing the Trustee to disclaim the Leases.

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## 1.2 Restrictions

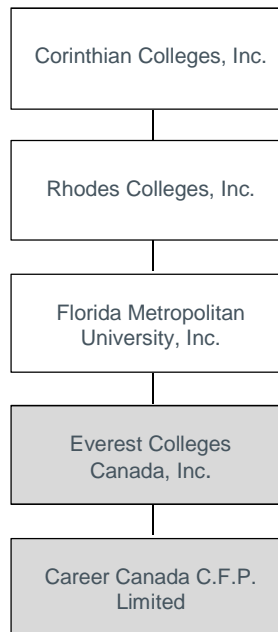
1. In preparing this Report, D&P has relied upon unaudited financial information prepared by the Companies' representatives, the Companies' books and records and discussions with the Companies' former employees and advisors. D&P has not performed an audit or other verification of such information and, accordingly, it expresses no opinion thereon.

## 1.3 Currency

1. All currency references in this Report are to Canadian dollars.

## 2.0 Background

1. The Companies are indirect subsidiaries of Corinthian Colleges Inc. ("CCI"), a US publicly traded company. The relevant excerpt of CCI's corporate chart is provided below (the bankrupt entities are shaded).



2. Until February 19, 2015, ECC operated as a private career college, offering various college diploma programs. ECC operated from fourteen leased campuses across Ontario, at which approximately 2,600 students were enrolled.
3. Career Canada, ECC's wholly-owned subsidiary, was an inactive entity, void of any assets.

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4. As at the date of bankruptcy, the Companies employed approximately 700 individuals, of which approximately 600 were active and approximately 100 were on leave. The Companies' workforce was non-unionized and the Companies did not maintain any pension plans.
  5. On February 19, 2015, the Ministry of Training, Colleges and Universities of Ontario (the "MTCU"), which provides regulatory oversight for Ontario colleges pursuant to the *Private Career Colleges Act*, issued a Notice of Immediate Suspension and Notice of Proposal to Revoke Registration (the "MTCU Notice") due to, *inter alia*, ECC's financial position. The effect of the MTCU Notice was the immediate suspension of ECC's operations. The deadline to appeal the MTCU Notice is March 6, 2015.
  6. On February 20, 2015, the day following the issuance of the MTCU Notice, the Companies filed assignments in bankruptcy.

## 3.0 Financial Position

### 3.1 Assets

1. Other than cash on deposit in ECC's bank accounts (approximately \$360,000<sup>1</sup>), the Trustee does not anticipate material realizations from the Companies' assets. According to ECC's unaudited, internal balance sheet as at January 31, 2015, the book value of ECC's assets is presented in the table below.

Description	Amount (\$000s)
Accounts receivable	2,597
Prepaid expenses and other assets	1,428
Fixed Assets (leasehold improvements, office furniture and computer equipment)	6,870
	10,895

2. The realizable value, if any, of the Companies' assets is anticipated to be materially lower than the book values reflected above. In this regard, the Trustee understands that:
  - Substantially all accounts receivable is comprised of tuition owed by ECC's former students, who will not be able to complete their programs with ECC. As at January 31, 2015, the accounts receivable balance was owing from approximately 4,300 account debtors;

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<sup>1</sup> These funds were immediately transferred to the Trustee's estate bank account.

- Prepaid expenses and other assets are largely comprised of payments made to landlords in accordance with the Leases and deposits with utility and other service providers who are creditors in the bankruptcy; and
- Based on the Trustee's discussions with an asset appraiser who attended at the campuses, the realizable value, if any, of the equipment and other assets at the leased premises appears to be nominal after considering occupancy costs and/or other realization costs, including moving and storage expenses.

## 3.2 Liabilities

### 3.2.1 Deemed Trust Claims

1. Based on the Companies' payroll records, there appears to be a deemed trust claim of approximately \$100,000 for unpaid source deductions and accrued wages arising on the Companies' final payroll<sup>2</sup>. The Trustee is not aware of any other statutory trust and/or priority claims.

### 3.2.2 Secured Creditors

1. Subject to the potential deemed trust claims noted above, all of ECC's assets are encumbered by Bank of America, N.A. (the "Bank"), the Companies' principal secured creditor<sup>3</sup>. The Companies' indebtedness to the Bank totals approximately \$5.7 million (plus interest and costs) pursuant to two irrevocable standby letters of credit ("LC") issued in favour of the Minister of Finance, Province of Ontario, detailed as follows:

Description	Amount (\$000s)
This LC is for use by the MTCU's Training Completion Assurance Fund (the "Fund"). The Fund provides student funding for training completion or refunds when a private career college ceases to operate. On February 19, 2015, this LC was determined by MTCU to be in forfeit and was called upon, in full.	3,000
This LC is for use by the Ontario Student Assistance Program ("OSAP"). This LC has not yet been called upon; exposure under this LC will be determined by defaults that may occur on OSAP loans made to ECC's students.	2,700
Total	5,700

<sup>2</sup> Canada Revenue Agency will conduct a trust examination on the Companies' payroll records before it files with the Trustee any deemed trust or other claims.

<sup>3</sup> The Trustee will be instructing its counsel, Norton Rose Fulbright Canada LLP, to provide a security opinion on the validity and enforceability of the Bank's security.

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2. The Bank will incur a substantial shortfall on its exposure under the LC's and, accordingly, there are no unencumbered assets in the estate and no funding available to the Trustee.
  3. According to a search conducted under the *Personal Property Security Act* (Ontario), two equipment lessors appear to have registered security interests in certain of the Company's leased computer and photocopier equipment.

### 3.2.3 Unsecured Creditors

1. According to its Statement of Affairs, ECC's unsecured liabilities total approximately \$1.8 million. This amount excludes ECC's obligations owing to its parent company, CCI, which totaled approximately \$34.7 million as at January 31, 2015. CCI is ECC's largest unsecured creditor – it has funded ECC's substantial operating losses since inception.
2. The Statement of Affairs also excludes certain "off balance sheet" obligations, including potential obligations owing to ECC's landlords and amounts owing to former employees for severance and termination. These obligations have yet to be quantified<sup>4</sup>.

## 4.0 The Leases

1. ECC has 17 real property leases<sup>5</sup> comprised of 14 college campuses, two parking lots (adjacent to campuses) and its head office on Eglinton Avenue. Monthly occupancy costs for all of ECC's leased premises total approximately \$1 million, inclusive of base rent, utilities, parking, property taxes and harmonized sales tax. A schedule reflecting occupancy costs by leased location and other details of the Leases is attached as Appendix "B".
2. Based on ECC's books and records, rent was paid for all leased premises up to the end of February, 2015. Immediately following its appointment, the Trustee sent a letter to each landlord, a copy of which is attached as Appendix "C". The letter noted, among other things, that the Trustee would advise shortly of its intentions with respect to the leased premises.

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<sup>4</sup> In the coming weeks, the Trustee intends to administer the statutory employee claims process in accordance with the *Wage Earner Protection Program Act*.

<sup>5</sup> Based on the Trustee's preliminary review of the leases, the tenant under two campus leases and the head office lease appears to be CCI. The Trustee intends to disclaim ECC's interest, if any, in these leases and the leased premises, subject to Court approval.

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#### 4.1 Rationale for Disclaiming the Leases

1. Pursuant to Section (30)(1)(k) of the *Bankruptcy and Insolvency Act* (“BIA”), the Trustee may elect to disclaim any lease in any property of the bankrupt with the permission of the estate’s Inspectors. As ECC’s First Meeting of Creditors is scheduled for March 11, 2015, Inspectors have yet to be appointed.
2. In the absence of Inspectors prior to a First Meeting of Creditors, Section 19(1) of the BIA permits a trustee to seek legal advice and take such court proceedings as it considers necessary for the protection of the bankrupt’s property. Further, Section 34(1) of the BIA allows the Trustee to apply to the Court for directions in relation to any matter affecting the administration of the estate of a bankrupt.
3. The Trustee believes it is critical and appropriate for this Honourable Court to authorize it to disclaim the Leases for the following reasons:
  - There are no funds in the estate (or unencumbered assets from which to secure funding) available to fund occupancy or other costs post February 28, 2015;
  - The relief requested is consistent with Section 19(1) of the BIA as it is necessary to protect ECC’s bankrupt estate;
  - Based on the Companies’ books and records and the Trustee’s discussions with an appraiser who attended at the campuses, there is no economic basis for the Trustee to continue to lease the premises; and
  - The Bank, being the Companies’ only economic stakeholder, supports the Trustee’s decision to seek to disclaim the Leases forthwith.
4. Subject to Court approval, the Trustee intends to disclaim the Leases on February 27, 2015.



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## 5.0 Conclusion and Recommendation

1. Based on the foregoing, the Trustee respectfully recommends that this Honourable Court make an order granting the relief detailed in Section 1.1 of this Report.

\* \* \*

All of which is respectfully submitted,

*Duff & Phelps Canada Restructuring Inc.*

**DUFF & PHELPS CANADA RESTRUCTURING INC.  
IN ITS CAPACITY AS TRUSTEE IN BANKRUPTCY OF  
EVEREST COLLEGES CANADA, INC.  
AND NOT IN ITS PERSONAL CAPACITY**

## **Appendix “A”**



Industry Canada  
Office of the Superintendent  
of Bankruptcy Canada

Industrie Canada  
Bureau du surintendant  
des faillites Canada

District of: Ontario  
Division No.: 09 - Toronto  
Court No.: 31-1963343  
Estate No.: 31-1963343

In the Matter of the Bankruptcy of:

**EVEREST COLLEGES CANADA, INC**

Debtor

**DUFF & PHELPS CANADA RESTRUCTURING INC**

Trustee

Ordinary Administration

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Date and time of bankruptcy:	February 20, 2015, 15:30	Security:	\$0.00
Date of trustee appointment:	February 20, 2015		
Meeting of creditors:	March 11, 2015, 11:00 Hyatt Regency 370 King St. West Toronto, Ontario Canada,		
Chair:	Official Receiver		

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CERTIFICATE OF APPOINTMENT - Section 49 of the Act; Rule 85

-- AMENDED --

I, the undersigned, official receiver in and for this bankruptcy district, do hereby certify that:

- the aforementioned debtor filed an assignment under section 49 of the *Bankruptcy and Insolvency Act*;
- the aforementioned trustee was duly appointed trustee of the estate of the debtor.

The said trustee is required:

- to provide to me, without delay, security in the aforementioned amount;
- to send to all creditors, within five days after the date of the trustee's appointment, a notice of the bankruptcy; and
- when applicable, to call in the prescribed manner a first meeting of creditors, to be held at the aforementioned time and place or at any other time and place that may be later requested by the official receiver.

Date: February 23, 2015, 12:43

E-File/Dépôt Electronique

Official Receiver

25 St. Clair Avenue East, 6th floor, Toronto, Ontario, Canada, M4T1M2, (877)376-9902

Canada



Industry Canada

Office of the Superintendent  
of Bankruptcy Canada

Industrie Canada

Bureau du surintendant  
des faillites Canada

District of: Ontario  
Division No.: 09 - Toronto  
Court No.: 31-1963353  
Estate No.: 31-1963353

In the Matter of the Bankruptcy of:

**CAREER CANADA C.F.P. LIMITED**

Debtor

**DUFF & PHELPS CANADA RESTRUCTURING INC**

Trustee

Ordinary Administration

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Date and time of bankruptcy:	February 20, 2015, 15:38	Security:	\$0.00
Date of trustee appointment:	February 20, 2015		
Meeting of creditors:	March 11, 2015, 11:00 Hyatt Regency 370 King St. West Toronto, Ontario Canada,		
Chair:	Official Receiver		

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CERTIFICATE OF APPOINTMENT - Section 49 of the Act; Rule 85

-- AMENDED --

I, the undersigned, official receiver in and for this bankruptcy district, do hereby certify that:

- the aforementioned debtor filed an assignment under section 49 of the *Bankruptcy and Insolvency Act*;
- the aforementioned trustee was duly appointed trustee of the estate of the debtor.

The said trustee is required:

- to provide to me, without delay, security in the aforementioned amount;
- to send to all creditors, within five days after the date of the trustee's appointment, a notice of the bankruptcy; and
- when applicable, to call in the prescribed manner a first meeting of creditors, to be held at the aforementioned time and place or at any other time and place that may be later requested by the official receiver.

Date: February 23, 2015, 12:46

E-File/Dépôt Electronique

Official Receiver

25 St. Clair Avenue East, 6th floor, Toronto, Ontario, Canada, M4T1M2, (877)376-9902

Canada

## **Appendix “B”**

In the Matter of the Bankruptcy of Everest Colleges Canada, Inc.

**Summary of Occupancy Costs by Location**

Based on the Company's Books and Records

(Unaudited; C\$)

Landlord	Note	Date of Lease	Municipal Address	City	Monthly Occupancy Costs
1. 2017410 Ontario Limited		20-Jul-01	320 Bayfield St., Bayfield Mall	Barrie	24,030
2. 1253315 Ontario Limited		1-Sep-01	389 Main St., 2nd Floor	Brampton	47,011
3. Second Real Properties Limited		20-Dec-93	2 King Street West, Jackson Square Mall, Plaza Suite 608	Hamilton	25,402
4. George and Antonietta Cotroneo		1-Oct-02	1039 Upper James Street	Hamilton	38,822
5. Nicolas Zacharidis		1-Jun-08	1045 Upper James Street	Hamilton	715
6. City of Kitchener		25-Jul-97	44 Gaukel Street	Kitchener	25,986
7. Redbourne Erindale Properties Co-Owners		10-Dec-04	1300 Central Parkway West, Floor 3 and 4	Mississauga	117,947
8. The Elia Corporation		11-Oct-06	1177 Central Parkway West	Mississauga	7,524
9. Merkburn Holdings Limited		21-Dec-04	1050 Morrison Drive	Nepean	75,248
10. Bonseph (Tannery) Ltd.		24-Feb-97	465 Davis Drive	Newmarket	59,179
11. 713949 Ontario Limited		18-Oct-04	1200 St. Laurent Boulevard, Units 19, 20	Ottawa	186,665
12. Vista Sudbury Hotel, Inc.	1	1-Aug-13	40 Elm St.	Sudbury	43,110
13. 337078 Ontario Limited		19-Oct-92	5734 Yonge Street, Floors 1, 7, 8	Toronto	73,797
14. 1303035 Ontario Ltd.	1	22-Aug-96	2425 Eglinton Avenue East, Suites 300 and 400	Toronto	78,333
15. Toronto College Park Ltd.		6-Oct-04	444 Yonge Street, Suite 200	Toronto	145,445
16. 40 Eglinton Avenue East Investments Inc.	1	16-Jan-12	40 Eglinton Avenue East, Suite 502	Toronto	23,594
17. Michael & Peter Ritter		12-Dec-05	875 Ouellette Ave, 4th Floor	Windsor	30,036
					1,002,844

Notes

- Based on the Trustee's preliminary review of the leases, the tenant under these three leases appears to be Corinthian Colleges Inc., ECC's parent company. The Trustee intends to disclaim ECC's interest, if any, in these leases and the leased premises, subject to Court approval.

## **Appendix “C”**

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DELIVERED BY EMAIL OR FACSIMILE

February 20, 2015

**Re: Everest Colleges Canada, Inc. ("ECC")**  
**(the "Premises")**

This letter is to advise you that on February 20, 2015, ECC made an assignment in bankruptcy and Duff & Phelps Canada Restructuring Inc. was appointed as trustee in bankruptcy ("Trustee") of ECC. A copy of the Certificate of Appointment issued by the Office of the Superintendent of Bankruptcy Canada is attached for your reference.

We understand that \_\_\_\_\_ is the landlord of the Premises and that rent for the Premises has been paid until February 28, 2015. The Trustee will advise you shortly of its intentions with respect to the Premises.

Should you have any questions with respect to the above, please contact the undersigned.

Yours very truly,

**DUFF & PHELPS CANADA RESTRUCTURING INC.**  
**IN ITS CAPACITY AS TRUSTEE IN BANKRUPTCY OF**  
**EVEREST COLLEGES CANADA, INC.**  
**AND NOT IN ITS PERSONAL CAPACITY**

*Noah Goldstein*  
*NRK*

Per: Noah Goldstein

NG:rk

Encl.