

ITT EDUCATIONAL SERVICES INC  
Form 10-Q/A  
October 16, 2014  
Table of Contents

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**

**FORM 10-Q/A**  
**(Amendment No. 1)**

**(Mark One)**

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

**For the quarterly period ended September 30, 2013**

**OR**

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

**For the transition period from \_\_\_\_\_ to \_\_\_\_\_**

**Commission file number 1-13144**

**ITT EDUCATIONAL SERVICES, INC.**

**(Exact name of registrant as specified in its charter)**

**Delaware**  
**(State or other jurisdiction of**  
**incorporation or organization)**

**36-2061311**  
**(I.R.S. Employer**  
**Identification No.)**

**13000 North Meridian Street**  
**Carmel, Indiana**  
**(Address of principal executive offices)**

**46032-1404**  
**(Zip Code)**

**Registrant's telephone number, including area code: (317) 706-9200**

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Edgar Filing: ITT EDUCATIONAL SERVICES INC - Form 10-Q/A

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer

Non-accelerated filer  (Do not check if a smaller reporting company) Smaller reporting company

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

23,369,914

Number of shares of Common Stock, \$.01 par value, outstanding at September 30, 2013

**Table of Contents**

**EXPLANATORY NOTE**

**Restatement and Revision of Consolidated Financial Statements**

ITT Educational Services, Inc. ( we, us or our ) is filing this Amendment No. 1 ( Amended Filing ) to its Quarterly Report on Form 10-Q for the quarter ended September 30, 2013, originally filed with the United States Securities and Exchange Commission ( SEC ) on October 29, 2013 (the Original Filing ), to amend and restate its unaudited condensed consolidated financial statements and related disclosures for the three and nine months ended September 30, 2013.

In February 2014, we commenced a review of the accounting for a variable interest that we held in a variable interest entity ( VIE ), which is a trust (the PEAKS Trust ) that purchased, owns and collects private education loans made under the PEAKS Private Student Loan Program (the PEAKS Program ). We engaged significant internal and external resources to perform supplemental procedures to assist us in reviewing our financial statements and accounting practices (the Supplemental Procedures ). As a result of the review and the Supplemental Procedures, on June 18, 2014, the Audit Committee of our Board of Directors determined that we should have consolidated the PEAKS Trust in our consolidated financial statements beginning on February 28, 2013. February 28, 2013 was the first date that we had the substantive unilateral right to remove the servicer of the private education loans owned by the PEAKS Trust ( PEAKS Trust Student Loans ). Within this Amended Filing, we are restating our previously issued condensed consolidated financial statements as of and for the three and nine months ended September 30, 2013 to reflect our determination that we should have consolidated the PEAKS Trust in our consolidated financial statements beginning on February 28, 2013 (the Consolidation ) and to reflect other corrections and reclassifications.

In this Amended Filing, we are restating:

our Condensed Consolidated Balance Sheet as of September 30, 2013 (unaudited);

our Condensed Consolidated Statements of Income for the three and nine months ended September 30, 2013 (unaudited);

our Condensed Consolidated Statements of Comprehensive Income for the three and nine months ended September 30, 2013 (unaudited);

our Condensed Consolidated Statements of Cash Flows for the three and nine months ended September 30, 2013 (unaudited);

our Condensed Consolidated Statement of Shareholders' Equity for the nine months ended September 30, 2013 (unaudited); and

the Notes to those condensed consolidated financial statements.

For a description of the restatement, see Note 2 Restatement and Revision of Previously Issued Unaudited Financial Statements of the Notes to Condensed Consolidated Financial Statements.

We have also revised our previously issued condensed consolidated financial statements as of and for the periods specified below to reflect certain immaterial corrections and reclassifications. In this Amended Filing, we have revised our:

Condensed Consolidated Balance Sheet as of September 30, 2012 (unaudited);

Condensed Consolidated Balance Sheet as of December 31, 2012;

Condensed Consolidated Statements of Income for the three and nine months ended September 30, 2012 (unaudited);

Condensed Consolidated Statements of Comprehensive Income for the three and nine months ended September 30, 2012 (unaudited);

Condensed Consolidated Statement of Shareholders' Equity for the nine months ended September 30, 2012 (unaudited); and

Condensed Consolidated Statement of Shareholders' Equity for the year ended December 31, 2012.  
For a description of the revision, see Note 2 – Restatement and Revision of Previously Issued Unaudited Financial Statements of the Notes to Condensed Consolidated Financial Statements.

Edgar Filing: ITT EDUCATIONAL SERVICES INC - Form 10-Q/A

For ease of reference, this Amended Filing amends and restates the Original Filing in its entirety. Restatements and revisions to the Original Filing have been made to the following sections:

Part I, Item 1 Financial Statements

Part I, Item 2 Management's Discussion and Analysis of Financial Condition and Results of Operations

Part I, Item 3 Quantitative and Qualitative Disclosures about Market Risk

- 1 -

**Table of Contents**

Part I, Item 4 Controls and Procedures

Part II, Item 1 Legal Proceedings

Part II, Item 1A Risk Factors

Part II, Item 6 Exhibits

The information in those sections has been modified to reflect the restatement and revisions described above, as well as where necessary to correct and/or update information as a result of the restatement and revisions to our financial statements. We have also updated the signature page, the certifications of our Chief Executive Officer and Chief Financial Officer in Exhibits 31.1, 31.2, 32.1 and 32.2, and our unaudited consolidated financial statements formatted in eXtensible Business Reporting Language (XBRL) in Exhibit 101. Except as provided in this Explanatory Note, or as indicated in the applicable disclosure, this Amended Filing has not been updated to reflect other events occurring after the filing of the Original Filing and does not modify or update information and disclosures in the Original Filing affected by subsequent events. Accordingly, this Amended Filing should be read in conjunction with our filings with the SEC subsequent to the date on which we filed the Original Filing, together with any amendments to those filings.

**Table of Contents**

**ITT EDUCATIONAL SERVICES, INC.**

Carmel, Indiana

Quarterly Report to Securities and Exchange Commission

September 30, 2013

**PART I**

**FINANCIAL INFORMATION**

**Item 1. Financial Statements.**

**Index**

Condensed Consolidated Balance Sheets as of September 30, 2013 (unaudited and as restated) and 2012 (unaudited) and December 31, 2012

Condensed Consolidated Statements of Income (unaudited) for the three and nine months ended September 30, 2013 (as restated) and 2012

Condensed Consolidated Statements of Comprehensive Income (unaudited) for the three and nine months ended September 30, 2013 (as restated) and 2012

Condensed Consolidated Statements of Cash Flows (unaudited) for the three and nine months ended September 30, 2013 (as restated) and 2012

Condensed Consolidated Statements of Shareholders' Equity for the nine months ended September 30, 2013 (unaudited and as restated) and 2012 (unaudited) and the year ended December 31, 2012

Notes to Condensed Consolidated Financial Statements (as restated)



**Table of Contents****ITT EDUCATIONAL SERVICES, INC.****CONDENSED CONSOLIDATED BALANCE SHEETS****(Dollars in thousands, except per share data)**

	September 30, 2013 (unaudited) (as restated)	As of December 31, 2012	September 30, 2012 (unaudited)
<b>Assets</b>			
Current assets:			
Cash and cash equivalents	\$ 165,581	\$ 243,465	\$ 169,666
Restricted cash	4,989	3,478	5,512
Accounts receivable, net	122,693	78,928	90,940
PEAKS Trust student loans, less allowance for loan losses of \$0, \$0 and \$0	7,598	0	0
Deferred income taxes	77,343	44,547	19,284
Prepaid expenses and other current assets	21,671	16,162	18,331
<b>Total current assets</b>	<b>399,875</b>	<b>386,580</b>	<b>303,733</b>
Property and equipment, net	174,394	189,890	194,253
PEAKS Trust student loans, excluding current portion, less allowance for loan losses of \$20,701, \$0 and \$0	85,340	0	0
Deferred income taxes	40,949	57,471	40,442
Other assets	38,744	41,263	49,080
<b>Total assets</b>	<b>\$ 739,302</b>	<b>\$ 675,204</b>	<b>\$ 587,508</b>
<b>Liabilities and Shareholders Equity</b>			
Current liabilities:			
Current portion of PEAKS Trust senior debt	\$ 134,075	\$ 0	\$ 0
Accounts payable	61,468	63,304	76,358
Accrued compensation and benefits	20,113	21,023	19,729
Other current liabilities	57,485	106,796	39,245
Deferred revenue	132,246	135,900	119,089
<b>Total current liabilities</b>	<b>405,387</b>	<b>327,023</b>	<b>254,421</b>
Long-term debt	60,000	140,000	140,000
PEAKS Trust senior debt, excluding current portion	94,420	0	0
Other liabilities	38,260	82,416	61,895
<b>Total liabilities</b>	<b>598,067</b>	<b>549,439</b>	<b>456,316</b>

Shareholders' equity:			
Preferred stock, \$.01 par value, 5,000,000 shares authorized, none issued	0	0	0
Common stock, \$.01 par value, 300,000,000 shares authorized, 37,068,904 issued	371	371	371
Capital surplus	197,124	197,113	193,510
Retained earnings	979,830	967,473	977,547
Accumulated other comprehensive (loss)	(7,715)	(7,930)	(8,970)
Treasury stock, 13,698,990, 13,744,395 and 13,744,474 shares, at cost	(1,028,375)	(1,031,262)	(1,031,266)
Total shareholders' equity	141,235	125,765	131,192
Total liabilities and shareholders' equity	\$ 739,302	\$ 675,204	\$ 587,508

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

Table of Contents

## ITT EDUCATIONAL SERVICES, INC.

## CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(Amounts in thousands, except per share data)

(unaudited)

	Three Months Ended September 30, 2013		Nine Months Ended September 30, 2013	
	(as restated)	2012	(as restated)	2012
<b>Revenue</b>	\$ 259,617	\$ 313,791	\$ 805,138	\$ 981,061
<b>Costs and expenses:</b>				
Cost of educational services	120,204	133,948	367,921	408,956
Student services and administrative expenses	96,182	104,647	296,238	311,861
Legal and other investigation costs	2,089	0	3,802	873
Loss related to loan program guarantees	4,826	5,095	8,629	12,055
Provision for PEAKS Trust student loan losses	16,382	0	20,701	0
Total costs and expenses	239,683	243,690	697,291	733,745
<b>Operating income</b>	19,934	70,101	107,847	247,316
(Loss) on consolidation of PEAKS Trust	0	0	(73,248)	0
Interest income	16	125	75	1,308
Interest (expense)	(7,190)	(1,021)	(18,133)	(2,822)
Income before provision for income taxes	12,760	69,205	16,541	245,802
Provision for income taxes	3,336	26,747	4,184	96,758
<b>Net income</b>	\$ 9,424	\$ 42,458	\$ 12,357	\$ 149,044
<b>Earnings per share:</b>				
Basic	\$ 0.40	\$ 1.82	\$ 0.53	\$ 6.20
Diluted	\$ 0.40	\$ 1.81	\$ 0.52	\$ 6.16
<b>Weighted average shares outstanding:</b>				
Basic	23,418	23,359	23,410	24,054
Diluted	23,634	23,443	23,556	24,200

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

Table of Contents

## ITT EDUCATIONAL SERVICES, INC.

## CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Dollars in thousands)

(unaudited)

	Three Months Ended September 30, 2013 (as restated)		Nine Months Ended September 30, 2013 (as restated)	
	2012	2012	2012	2012
<b>Net income</b>	\$ 9,424	\$ 42,458	\$ 12,357	\$ 149,044
<b>Other comprehensive income, net of tax:</b>				
Net actuarial pension loss amortization, net of income tax of \$196, \$265, \$589 and \$796	310	414	929	1,241
Prior service (credit) amortization, net of income tax of \$151, \$152, \$453 and \$455	(238)	(237)	(714)	(711)
Unrealized gains (losses) on available-for-sale securities, net of income tax of \$0, \$0, \$0 and \$0	0	0	0	(21)
Other comprehensive income, net of tax	72	177	215	509
<b>Comprehensive income</b>	\$ 9,496	\$ 42,635	\$ 12,572	\$ 149,553

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

Table of Contents

## ITT EDUCATIONAL SERVICES, INC.

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in thousands)

(unaudited)

	Three Months Ended September 30, 2013 (as restated)		Nine Months Ended September 30, 2013 (as restated)	
	2012	2012	2012	2012
<b>Cash flows from operating activities:</b>				
Net income	\$ 9,424	\$ 42,458	\$ 12,357	\$ 149,044
Adjustments to reconcile net income to net cash flows from operating activities:				
Depreciation and amortization	6,173	6,930	20,816	22,045
Provision for doubtful accounts	14,526	17,474	44,755	41,562
Deferred income taxes	(6,075)	(6,326)	(19,974)	(17,040)
Excess tax benefit from stock option exercises	0	(3)	0	(1,382)
Stock-based compensation expense	3,304	4,291	8,698	13,046
Settlement cost	0	0	(46,000)	0
Accretion of discount on PEAKS Trust student loans	(4,072)	0	(9,536)	0
Accretion of discount on PEAKS Trust senior debt	1,411	0	3,444	0
Provision for PEAKS Trust student loan losses	16,382	0	20,701	0
Loss on consolidation of PEAKS Trust	0	0	73,248	0
Other	257	340	622	97
Changes in operating assets and liabilities, net of acquisition:				
Restricted cash	830	1,275	192	1,760
Accounts receivable	(10,275)	(33,367)	(87,503)	(83,894)
PEAKS Trust student loans	3,434	0	8,013	0
Accounts payable	(2,542)	(4,419)	(2,127)	(2,518)
Other operating assets and liabilities	715	(4,908)	(7,316)	3,853
Deferred revenue	17,769	(2,784)	(4,085)	(107,454)
Net cash flows from operating activities	51,416	20,961	16,303	19,119
<b>Cash flows from investing activities:</b>				
Facility expenditures	(81)	(108)	(541)	(493)
Capital expenditures, net	(904)	(3,185)		