

ITT EDUCATIONAL SERVICES INC
Form 10-Q
April 26, 2012
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended **March 31, 2012**

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

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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

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

24,134,527

Number of shares of Common Stock, \$.01 par value, outstanding at March 31, 2012

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ITT EDUCATIONAL SERVICES, INC.

Carmel, Indiana

Quarterly Report to Securities and Exchange Commission

March 31, 2012

PART I

FINANCIAL INFORMATION

Item 1. Financial Statements.

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Condensed Consolidated Statements of Income (unaudited) for the three months ended March 31, 2012 and 2011

Condensed Consolidated Statements of Comprehensive Income (unaudited) for the three months ended March 31, 2012 and 2011

Condensed Consolidated Statements of Cash Flows (unaudited) for the three months ended March 31, 2012 and 2011

Condensed Consolidated Statements of Shareholders' Equity for the three months ended March 31, 2012 and 2011 (unaudited) and the year ended December 31, 2011

Notes to Condensed Consolidated Financial Statements

Table of Contents**ITT EDUCATIONAL SERVICES, INC.****CONDENSED CONSOLIDATED BALANCE SHEETS**

(Dollars in thousands, except per share data)

	March 31, 2012 (unaudited)	As of December 31, 2011	March 31, 2011 (unaudited)
Assets			
Current assets:			
Cash and cash equivalents	\$178,476	\$228,993	\$187,922
Short-term investments	114,806	148,488	152,612
Restricted cash	1,123	2,128	1,820
Accounts receivable, net	54,411	48,106	59,798
Deferred income taxes	12,566	9,759	5,402
Prepaid expenses and other current assets	17,832	18,814	24,388
Total current assets	379,214	456,288	431,942
Property and equipment, net	198,493	201,257	196,579
Deferred income taxes	34,081	33,267	28,125
Other assets	49,516	38,006	44,869
Total assets	\$661,304	\$728,818	\$701,515
Liabilities and Shareholders' Equity			
Current liabilities:			
Accounts payable	\$77,664	\$78,876	\$72,689
Accrued compensation and benefits	13,323	21,438	19,345
Other current liabilities	50,920	18,190	61,321
Deferred revenue	180,147	226,543	265,540
Total current liabilities	322,054	345,047	418,895
Long-term debt	175,000	150,000	150,000
Other liabilities	72,629	64,972	52,151
Total liabilities	569,683	560,019	621,046
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	194,027	189,573	177,594
Retained earnings	884,230	827,675	607,765
Accumulated other comprehensive (loss)	(9,316)	(9,479)	(4,563)
Treasury stock, 12,934,377, 10,969,425 and 8,999,196 shares, at cost	(977,691)	(839,341)	(700,698)
Total shareholders' equity	91,621	168,799	80,469

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Total liabilities and shareholders' equity	\$661,304	\$728,818	\$701,515
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The accompanying notes are an integral part of these condensed consolidated financial statements.

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Table of Contents**ITT EDUCATIONAL SERVICES, INC.****CONDENSED CONSOLIDATED STATEMENTS OF INCOME**

(Amounts in thousands, except per share data)

(unaudited)

	Three Months Ended	
	March 31,	
	2012	2011
Revenue	\$341,794	\$383,171
Costs and expenses:		
Cost of educational services	134,941	137,926
Student services and administrative expenses	106,266	104,583
Total costs and expenses	241,207	242,509
Operating income	100,587	140,662
Interest income	681	835
Interest (expense)	(547)	(557)
Income before provision for income taxes	100,721	140,940
Provision for income taxes	39,650	55,554
Net income	\$61,071	\$85,386
Earnings per share:		
Basic	\$2.40	\$2.94
Diluted	\$2.38	\$2.91
Weighted average shares outstanding:		
Basic	25,420	29,085
Diluted	25,636	29,312

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

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ITT EDUCATIONAL SERVICES, INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Dollars in thousands)

(unaudited)

	Three Months Ended March 31,	
	2012	2011
Net Income	\$61,071	\$85,386
Other comprehensive income, net of tax:		
Prior service cost amortization, net of income tax of \$151 and \$135	(237)	(211)
Net actuarial pension loss amortization, net of income tax of \$272 and \$186	423	290
Unrealized (losses) on available-for-sale securities, net of income tax of \$0 and \$0	(23)	(133)
Other comprehensive income (loss), net of tax	163	(54)
Comprehensive income	\$61,234	\$85,332

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 March 31,	
	2012	2011
Cash flows from operating activities:		
Net income	\$61,071	\$85,386
Adjustments to reconcile net income to net cash flows from operating activities:		
Depreciation and amortization	7,420	6,842
Provision for doubtful accounts	15,601	12,667
Deferred income taxes	(3,742)	(2,685)
Excess tax benefit from stock option exercises	(805)	(351)
Stock-based compensation expense	4,483	3,914
Other	(339)	(1,430)
Changes in operating assets and liabilities:		
Restricted cash	1,005	(1,565)
Accounts receivable	(21,906)	(3,528)
Accounts payable	(1,212)	4,769
Other operating assets and liabilities	22,166	56,922
Deferred revenue	(46,396)	21,178
Net cash flows from operating activities	37,346	182,119
Cash flows from investing activities:		
Facility expenditures and land purchases	(132)	(502)
Capital expenditures, net	(4,518)	(4,699)
Proceeds from sales and maturities of investments and repayment of notes	98,955	142,085
Purchase of investments and note advances	(63,545)	(158,589)
Net cash flows from investing activities	30,760	(21,705)
Cash flows from financing activities:		
Excess tax benefit from stock option exercises	805	351
Proceeds from exercise of stock options	4,668	3,028
Debt issue costs	(1,525)	0
Proceeds from revolving borrowings	175,000	0
Repayment of revolving borrowings	(150,000)	0
Repurchase of common stock and shares tendered for taxes	(147,571)	(139,650)
Net cash flows from financing activities	(118,623)	(136,271)
Net change in cash and cash equivalents	(50,517)	24,143
Cash and cash equivalents at beginning of period	228,993	163,779
Cash and cash equivalents at end of period	\$178,476	\$187,922

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

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ITT EDUCATIONAL SERVICES, INC.

CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(Dollars and shares in thousands)

	Common Stock		Capital Surplus	Retained Earnings	Accumulated		Total	
	Shares	Amount			Other Comprehensive Income/(Loss)	Common Stock in Treasury		Amount
Balance as of December 31, 2010	37,069	\$371	\$173,935	\$524,678	(\$4,509)	(7,076)	(\$566,405)	\$128,070
For the three months ended March 31, 2011 (unaudited):								
Net income				85,386				85,386
Other comprehensive income:								
Prior service costs, net of \$135 of income tax					(211)			(211)
Net actuarial pension loss, net of \$186 of income tax					290			290
Unrealized (loss)					(133)			(133)
Comprehensive income								85,332
Exercise of stock options and equity awards				(2,300)		84	5,328	3,028
Tax benefit from exercise of stock options and equity award vesting			351					351
Stock-based compensation			3,308					3,308
Common shares repurchased						(2,000)	(139,097)	(139,097)
Issuance of shares for Directors' compensation				1		1	29	30
Shares tendered for taxes						(8)	(553)	(553)
Balance as of March 31, 2011	37,069	371	177,594	607,765	(4,563)	(8,999)	(700,698)	80,469
For the nine months ended December 31, 2011 (unaudited):								
Net income				222,366				222,366
Other comprehensive income:								
Prior service costs, net of \$472 of income tax					(737)			(737)
Net actuarial pension loss, net of \$2,819 of income tax					(4,986)			(4,986)
					734			734

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Pension settlement loss, net of \$470 of income tax								
Unrealized gain				73				73
Comprehensive income								217,450
Exercise of stock options and equity awards			(2,456)	71	5,027			2,571
Tax benefit from exercise of stock options and equity award vesting		839						839
Stock-based compensation		11,140						11,140
Common shares repurchased				(2,040)	(143,604)			(143,604)
Shares tendered for taxes				(1)	(66)			(66)
Balance as of December 31, 2011	37,069	371	189,573	827,675	(9,479)	(10,969)	(839,341)	168,799
For the three months ended March 31, 2012 (unaudited):								
Net income				61,071				61,071
Other comprehensive income:								
Prior service costs, net of \$151 of income tax					(237)			(237)
Net actuarial pension loss, net of \$272 of income tax				423				423
Unrealized (loss)				(23)				(23)
Comprehensive income								61,234
Exercise of stock options and equity awards			(4,515)	145	9,183			4,668
Tax benefit from exercise of stock options and equity award vesting		417						417
Stock-based compensation		4,037						4,037
Common shares repurchased				(2,097)	(146,657)			(146,657)
Issuance of shares for Directors compensation			(1)	1	38			37
Shares tendered for taxes					(14)	(914)		(914)
Balance as of March 31, 2012	37,069	\$371	\$194,027	\$884,230	(\$9,316)	(12,934)	(\$977,691)	\$91,621

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

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ITT EDUCATIONAL SERVICES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2012

(Dollars in thousands, except per share data and unless otherwise stated)

1. The Company and Basis of Presentation

We are a leading proprietary provider of postsecondary degree programs in the United States based on revenue and student enrollment. As of March 31, 2012, we were offering master, bachelor and associate degree programs to approximately 71,000 students at ITT Technical Institute and Daniel Webster College locations. In addition, we offered one or more of our online programs to students who are located in 48 states. As of March 31, 2012, we had 148 college locations (including 145 campuses and three learning sites) in 39 states. All of our college locations are authorized by the applicable education authorities of the states in which they operate and are accredited by an accrediting commission recognized by the U.S. Department of Education (ED). We have provided career-oriented education programs since 1969 under the ITT Technical Institute name and since June 2009 under the Daniel Webster College name. Our corporate headquarters are located in Carmel, Indiana.

The accompanying unaudited condensed consolidated financial statements include our wholly-owned subsidiaries accounts and have been prepared in accordance with generally accepted accounting principles in the United States of America for interim periods and pursuant to the rules and regulations of the U.S. Securities and Exchange Commission (SEC). Certain information and footnote disclosures, including significant accounting policies, normally included in a complete presentation of financial statements prepared in accordance with those principles, rules and regulations have been omitted. The Condensed Consolidated Balance Sheet as of December 31, 2011 was derived from audited financial statements but, as presented in this report, may not include all disclosures required by accounting principles generally accepted in the United States. Arrangements where we may have a variable interest in another party are evaluated in accordance with the provisions of Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC or Codification) 810, Consolidation (ASC 810), to determine whether we would be required to include the financial results of the other party in our consolidated financial statements. Based on our most recent evaluation, we were not required to include the financial results of any variable interest entity in our condensed consolidated financial statements. See Note 8 Variable Interests, for additional discussion of our variable interests.

In the opinion of our management, the financial statements contain all adjustments necessary to fairly state our financial condition and results of operations. The interim financial information should be read in conjunction with the audited consolidated financial statements and notes thereto contained in our Annual Report on Form 10-K as filed with the SEC for the year ended December 31, 2011.

2. New Accounting Guidance

In December 2011, the FASB issued Accounting Standards Update (ASU) No. 2011-12, which is included in the Codification under ASC 220, Comprehensive Income (ASC 220). This update defers the effective date of ASU No. 2011-05 for changes that relate to the presentation of reclassification adjustments out of accumulated other comprehensive income. None of the other requirements in ASU 2011-05 are affected by this update. This guidance became effective for our interim and annual reporting periods beginning January 1, 2012. The adoption of this guidance did not have a material impact on our condensed consolidated financial statements.

Also in December 2011, the FASB issued ASU No. 2011-11, which is included in the Codification under ASC 210, Balance Sheet (ASC 210). This update provides for enhanced disclosures to help users of financial statements evaluate the effect or potential effect of netting arrangements on an entity s financial position. This guidance is effective for interim and annual reporting periods beginning January 1, 2013. We have not yet determined the effect that the adoption of this guidance will have on our condensed consolidated financial statements.

In September 2011, the FASB issued ASU No. 2011-08, which is included in the Codification under ASC 350, Intangibles Goodwill and Other (ASC 350). This update allows an entity to assess qualitative factors to determine whether it is necessary to perform the two-step quantitative goodwill impairment test. This guidance became effective for our interim and annual reporting periods beginning January 1, 2012. The adoption of this guidance did not have a material impact on our condensed consolidated financial statements.

In June 2011, the FASB issued ASU No. 2011-05, which is included in the Codification under ASC 220. This update requires total comprehensive income, the components of net income and the components of other comprehensive income to be presented either in a single continuous statement or in two separate but consecutive statements. This guidance became effective for our interim and annual reporting periods

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beginning January 1, 2012. Prior to January 1, 2012, we presented total Comprehensive income and the components of Other comprehensive income in our Condensed Consolidated Statements of Shareholders' Equity. After December 31, 2011, we present total Comprehensive income and the components of Other comprehensive income in our Condensed Consolidated Statements of Comprehensive Income.

In May 2011, the FASB issued ASU No. 2011-04, which is included in the Codification under ASC 820, Fair Value Measurements (ASC 820). This update provides guidance and clarification about the application of existing fair value measurements and disclosure requirements. This guidance became effective for our interim and annual reporting periods beginning January 1, 2012. The adoption of this guidance did not have a material impact on our condensed consolidated financial statements.

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Fair value for financial reporting is defined as the price that would be received upon the sale of an asset or paid upon the transfer of a liability in an orderly transaction between market participants at the measurement date. The fair value measurement of our financial assets utilized assumptions categorized as observable inputs under the accounting guidance. Observable inputs are assumptions based on independent market data sources.

The following table sets forth information regarding the fair value measurement of our financial assets as of March 31, 2012:

Description	As of March 31, 2012	Fair Value Measurements at Reporting Date Using		
		(Level 1) Quoted Prices in Active Markets for Identical Assets	(Level 2) Significant Other Observable Inputs	(Level 3) Significant Unobservable Inputs
Cash equivalents:				
Money market funds	\$175,769	\$175,769	\$0	\$0
Short-term investments:				
U.S. Treasury obligations	80,445	80,445	0	0
Government agency obligations	17,022	0	17,022	0
Corporate obligations	17,339	0	17,339	0
Other assets:				
Money market fund	8,619	8,619	0	0
	\$299,194	\$264,833	\$34,361	\$0

We used quoted prices in active markets for identical assets as of the measurement date to value our financial assets that were categorized as Level 1. For assets that were categorized as Level 2, we used:

- quoted prices for similar assets in active markets;
- quoted prices for identical or similar assets in markets that were not active or in which little public information had been released;
- inputs other than quoted prices that were observable for the assets; or
- inputs that were principally derived from or corroborated by observable market data by correlation or other means.

The carrying amounts for cash and cash equivalents, restricted cash, accounts receivable, accounts payable, other current liabilities and deferred revenue approximate fair value because of the immediate or short-term maturity of these financial instruments. Investments classified as available-for-sale are recorded at their market value.

The fair value of the notes receivable included in Other assets on our Condensed Consolidated Balance Sheet as of March 31, 2012 is estimated by discounting the future cash flows using current rates for similar arrangements. As of March 31, 2012, each of the carrying value and the estimated fair value of these financial instruments was approximately \$19,000.

The fair value of our long-term debt is estimated by discounting the future cash flows using current rates for similar loans with similar characteristics and remaining maturities. As of March 31, 2012, each of the carrying value and the estimated fair value of our long-term debt was approximately \$175,000.

4. Equity Compensation

The stock-based compensation expense and related income tax benefit recognized in our Condensed Consolidated Statements of Income in the periods indicated were as follows:

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Three Months Ended

March 31,

2012 2011

Stock-based compensation expense	\$4,483	\$3,914
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Income tax (benefit)	(\$1,726)	(\$1,507)
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We did not capitalize any stock-based compensation cost in the three months ended March 31, 2012 or 2011.

As of March 31, 2012, we estimated that pre-tax compensation expense for unvested stock-based compensation grants in the amount of approximately \$33,900 net of estimated forfeitures, will be recognized in future periods. This expense will be recognized over the remaining service period applicable to the grantees which, on a weighted-average basis, is approximately 2.4 years.

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The stock options granted, forfeited, exercised and expired in the period indicated were as follows:

	# of Shares	Three Months Ended March 31, 2012			
		Weighted Average Exercise Price	Aggregate Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value ⁽¹⁾
Outstanding at beginning of period	1,765,881	\$79.24	\$139,922		
Granted	156,500	\$75.16	11,763		
Forfeited	0	\$0	0		
Exercised	(104,054)	\$44.86	(4,668)		
Expired	(1,734)	\$17.25	(30)		
Outstanding at end of period	1,816,593	\$80.91	\$146,987	3.7	\$11,047
Exercisable at end of period	1,452,086	\$80.10	\$116,310	3.1	\$11,047

- (1) The aggregate intrinsic value of the stock options was calculated by identifying those stock options that had a lower exercise price than the closing market price of our common stock on March 30, 2012 and multiplying the difference between the closing market price of our common stock and the exercise price of each of those stock options by the number of shares subject to those stock options that were outstanding or exercisable, as applicable.

The following table sets forth information regarding the stock options granted and exercised in the periods indicated:

	Three Months Ended March 31,	
	2012	2011
Shares subject to stock options granted	156,500	159,500
Weighted average grant date fair value per share	\$31.36	\$28.90
Shares subject to stock options exercised	104,054	60,530
Intrinsic value of stock options exercised	\$2,489	\$911
Proceeds received from stock options exercised	\$4,668	\$3,028
Tax benefits realized from stock options exercised	\$864	\$351

The intrinsic value of a stock option is the difference between the fair market value of the stock and the option exercise price.

The fair value of each stock option grant was estimated on the date of grant using the following assumptions:

	Three Months Ended March 31,	
	2012	2011
Risk-free interest rates	0.7%	1.8%
Expected lives (in years)	4.5	4.7
Volatility	51%	48%
Dividend yield	None	None

The following table sets forth the number of restricted stock units (RSUs) that were granted, forfeited and vested in the period indicated:

	Three Months Ended March 31, 2012	Weighted Average Grant Date Fair Value
	# of RSUs	Fair Value
Unvested at beginning of period	314,006	\$79.44
Granted	257,694	\$75.12
Forfeited	(5,191)	\$76.56
Vested	(90,149)	\$81.12
Unvested at end of period	476,360	\$76.81

In the three months ended March 31, 2012:

48,935 RSUs vested and were settled in cash for \$3,073; and
 41,214 RSUs vested and were settled in shares of our common stock having a fair market value of \$2,754.

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As of March 31, 2012, 3,699,525 shares remained available for repurchase under the share repurchase program (the Repurchase Program) authorized by our Board of Directors. The terms of the Repurchase Program provide that we may repurchase shares of our common stock, from time to time depending on market conditions and other considerations, in the open market or through privately negotiated transactions in accordance with Rule 10b-18 of the Securities Exchange Act of 1934, as amended (the Exchange Act). Unless earlier terminated by our Board of Directors, the Repurchase Program will expire when we repurchase all shares authorized for repurchase thereunder.

The following table sets forth information regarding the shares of our common stock that we repurchased in the periods indicated:

	Three Months Ended	
	March 31,	
	2012	2011
Number of shares	2,097,200	2,000,000
Total cost	\$ 146,657	\$ 139,097
Average cost per share	\$ 69.93	\$ 69.55

From April 1, 2012 through April 17, 2012, we repurchased 928,500 outstanding shares of our common stock pursuant to our existing repurchase authorization at a total cost of \$61,261 or at an average cost per share of \$65.98.

6. Debt

We were a party to a Second Amended and Restated Credit Agreement dated as of January 11, 2010, as amended (the Prior Credit Agreement), to borrow up to \$150,000 under two revolving credit facilities: one in the maximum principal amount of \$50,000; and the other in the maximum principal amount of \$100,000. The borrowings under each credit facility could have been secured or unsecured at our election, provided that we had not defaulted under the Prior Credit Agreement.

Borrowings under the Prior Credit Agreement bore interest, at our option, at the London Interbank Offered Rate (LIBOR) plus an applicable margin or at an alternative base rate, as defined under the Prior Credit Agreement. We paid a facility fee equal to 0.25% per annum on the daily amount of the commitment (whether used or unused) under the Prior Credit Agreement.

On March 21, 2012, we entered into a credit agreement (the New Credit Agreement) that provides for a \$325,000 senior revolving credit facility (the Revolver). The New Credit Agreement also provides that we may seek additional revolving commitments or term loan commitments in an aggregate principal amount not to exceed \$125,000. The lenders under the New Credit Agreement are not under any obligation to provide any such additional revolving commitments or term loan commitments. The New Credit Agreement has a maturity date of March 21, 2015.

A portion of the borrowings under the Revolver were used to prepay the entire outstanding indebtedness under the Prior Credit Agreement. The Prior Credit Agreement was also terminated on March 21, 2012. In addition to the prepayment of the outstanding indebtedness under the Prior Credit Agreement, borrowings under the New Credit Agreement will be used for general corporate purposes.

Borrowings under the New Credit Agreement bear interest, at our option, at LIBOR plus an applicable margin or at an alternative base rate, as defined under the New Credit Agreement, plus an applicable margin. The applicable margin for borrowings under the Revolver is determined based on the ratio of our total Indebtedness (as defined in the New Credit Agreement) to EBITDA (as defined in the New Credit Agreement) (the Leverage Ratio) as of the end of each fiscal quarter. We also pay a commitment fee on the amount of the unutilized commitments under the New Credit Agreement. The amount of the commitment fee is determined based on the Leverage Ratio as of the end of each fiscal quarter.

The New Credit Agreement contains, among other things, covenants, representations and warranties and events of default customary for credit facilities. The New Credit Agreement is secured by a pledge of the equity interests of our subsidiaries and is guaranteed by one of our subsidiaries. We are required to maintain compliance with a maximum Leverage Ratio, a minimum interest coverage ratio, a minimum liquidity amount and several ratios related to the ED s regulations. We were in compliance with those requirements as of March 31, 2012.

As of March 31, 2012, the borrowings under the New Credit Agreement totaled \$175,000 and bore interest at a rate of 2.50% per annum. The effective interest rate on our borrowings was approximately 1.40% per annum for the three months ended March 31, 2012 and approximately 1.50% per annum for the three months ended March 31, 2011. The commitment fee under the New Credit Agreement was 0.35% as of March 31, 2012.

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The following table sets forth the interest expense (including the facility fee and commitment fee) that we recognized on our borrowings under the New Credit Agreement and under the Prior Credit Agreement in the periods indicated:

Three Months Ended March 31,	
2012	2011
\$547	\$557

7. Investments

Our available-for-sale investments were classified as short-term investments on our March 31, 2012, December 31, 2011 and March 31, 2011 Condensed Consolidated Balance Sheets. The following table sets forth the aggregate fair value, amortized cost basis and the net unrealized gains and losses included in accumulated other comprehensive income (loss) of our available-for-sale investments as of the dates indicated:

	March 31, 2012		Net Unrealized Gains (Losses)	As of: December 31, 2011			March 31, 2011		Net Unrealized Gains (Losses)
	Aggregate Fair Value	Amortized Cost		Aggregate Fair Value	Amortized Cost	Net Unrealized Gains (Losses)	Aggregate Fair Value	Amortized Cost	
Available-for-Sale Investments:									
Government obligations	\$80,445	\$80,446	(\$1)	\$100,517	\$100,480	\$37	\$100,658	\$100,691	(\$33)
Government agency obligations	17,022	17,022	0	31,351	31,354	(3)	33,172	33,187	(15)
Corporate obligations	17,339	17,340	(1)	16,620	16,633	(13)	13,437	13,441	(4)
	\$114,806	\$114,808	(\$2)	\$148,488	\$148,467	\$21	\$147,267	\$147,319	(\$52)

We also held a certificate of deposit with a total principal value of \$5,345 as of March 31, 2011. This investment was included in Short-term investments on our Condensed Consolidated Balance Sheet as of March 31, 2011. We did not hold a certificate of deposit as of March 31, 2012 or December 31, 2011. We had \$114,806 of debt securities classified as available-for-sale as of March 31, 2012, and all of those debt securities had contractual maturities within one year.

The following table sets forth the unrealized gains and losses on available-for-sale investments that were included in other comprehensive income (loss) in the periods indicated:

	Three Months Ended March 31,	
	2012	2011
Unrealized gains	\$0	\$0
Unrealized losses	(\$23)	(\$133)

The following table sets forth the components of investment income included in Interest income in our Condensed Consolidated Statements of Income in the periods indicated:

Three Months Ended March 31,

	2012	2011
Interest income on investments	\$141	\$155
Realized net gains on the sale of investments	14	145
	\$155	\$300

8. Variable Interests

On January 20, 2010, we entered into agreements with unrelated third parties to establish the PEAKS Private Student Loan Program (PEAKS Program), which is a private education loan program for our students. Under the PEAKS Program, an unaffiliated lender originated private education loans to our eligible students and, subsequently, sold those loans to an unaffiliated trust that purchased, owns and collects private education loans (PEAKS Trust). The PEAKS Trust issued senior debt in the aggregate principal amount of \$300,000 (PEAKS Senior Debt) to investors. The lender disbursed the proceeds of the private education loans to us for application to the students' account balances with us that represented their unpaid education costs. We transferred a portion of the amount of each private education loan disbursed to us under the PEAKS Program to the PEAKS Trust in exchange for a subordinated note issued by the PEAKS Trust (Subordinated Note). No new private education loans were or will be originated under the PEAKS Program after July 2011, but immaterial amounts related to loans originated prior to that date were disbursed by the lender through March 2012.

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The Subordinated Note is non-interest bearing and has been recorded net of an unamortized discount based on an imputed interest rate of 9.0% in Other assets on our Condensed Consolidated Balance Sheets. The discount is amortized and recognized in Interest income on our Condensed Consolidated Statements of Income over the term of the Subordinated Note, which is expected to be approximately 15 years. The face value of the Subordinated Note as of March 31, 2012 was approximately \$75,400.

The PEAKS Trust utilized the proceeds from the issuance of the PEAKS Senior Debt and the Subordinated Note to purchase the private education loans made by the lender to our students. The assets of the PEAKS Trust (which include, among other assets, the private education loans owned by the PEAKS Trust) serve as collateral for, and are intended to be the principal source of, the repayment of the PEAKS Senior Debt and the Subordinated Note. The PEAKS Trust is required to maintain assets having an aggregate value that exceeds the outstanding balance of the PEAKS Senior Debt. As of March 31, 2012, the value of the assets of the PEAKS Trust satisfied this requirement. We guarantee payment of the principal, interest and certain call premiums owed on the PEAKS Senior Debt, and the administrative fees and expenses of the PEAKS Trust (PEAKS Guarantee). See Note 11 Contingencies, for further discussion of the PEAKS Guarantee.

We did not explicitly or implicitly provide any financial or other support to the PEAKS Trust during the three months ended March 31, 2012 or 2011 that we were not contractually required to provide, and we do not intend to provide any such support to the PEAKS Trust in the foreseeable future, other than what we are contractually required to provide.

The PEAKS Trust is a variable interest entity as defined under ASC 810. We held variable interests in the PEAKS Trust as of March 31, 2012 as a result of the Subordinated Note and PEAKS Guarantee. To determine whether we were the primary beneficiary of the PEAKS Trust, we:

- assessed the risks that the PEAKS Trust was designed to create and pass through to its variable interest holders;
- identified the variable interests in the PEAKS Trust;
- identified the other variable interest holders and their involvement in the activities of the PEAKS Trust;
- identified the activities that most significantly impact the PEAKS Trust's economic performance;
- determined whether we have the power to direct those activities; and
- determined whether we have the right to receive the benefits from, or the obligation to absorb the losses of, the PEAKS Trust that could potentially be significant to the PEAKS Trust.

We determined that the activities of the PEAKS Trust that most significantly impact the economic performance of the PEAKS Trust involve:

- establishing the underwriting criteria of, and the interest rates and fees charged on, the private education loans acquired by the PEAKS Trust; and
- the servicing (which includes the collection) of the private education loans owned by the PEAKS Trust.

To make that determination, we analyzed various possible scenarios of student loan portfolio performance to evaluate the potential economic impact on the PEAKS Trust. In our analysis, we made what we believe are conservative assumptions based on historical data for the following key variables:

- the composition of the credit profiles of the borrowers;
- the interest rates and fees charged on the loans;
- the default rates and the timing of defaults associated with similar types of loans; and
- the prepayment and the speed of repayment associated with similar types of loans.

Based on our analysis, we concluded that we are not the primary beneficiary of the PEAKS Trust, because we do not have the power to direct the activities that most significantly impact the economic performance of the PEAKS Trust. As a result, we are not required under ASC 810 to include the financial results of the PEAKS Trust in our condensed consolidated financial statements for the three months ended March 31, 2012. Our conclusion that we are not the primary beneficiary of the PEAKS Trust did not change from the prior reporting period. Therefore, there was no effect on our condensed consolidated financial statements.

On February 20, 2009, we entered into agreements with an unaffiliated entity (the 2009 Entity) to create a program that makes private education loans available to our students to help pay the students' cost of education that student financial aid from federal, state and other sources do not cover (the 2009 Loan Program). Under the 2009 Loan Program, an unaffiliated lender originated private education loans to our eligible students and, subsequently, sells those loans to the 2009 Entity. The 2009 Entity purchases the private education loans from the lender utilizing funds

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received from its owners in exchange for participation interests in the private education loans acquired by the 2009 Entity. The lender disburses the proceeds of the private education loans to us for application to the students' account balances with us that represent their unpaid education costs. No new private education loans were or will be originated under the 2009 Loan Program after December 31, 2011, but immaterial amounts related to loans originated prior to that date will be disbursed by the lender and purchased by the 2009 Entity through approximately June 2012.

In connection with the 2009 Loan Program, we entered into a risk sharing agreement (the 2009 RSA) with the 2009 Entity. Under the 2009 RSA, we guarantee the repayment of any private education loans that are charged off above a certain percentage of the private education loans made under the 2009 Loan Program, based on the annual dollar volume. See Note 11 Contingencies, for further discussion of the 2009 RSA.

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In addition, we have made advances to the 2009 Entity under a revolving promissory note (the Revolving Note). We did not make any advances in the three months ended March 31, 2012 or 2011 to the 2009 Entity under the Revolving Note that we were not contractually required to make. Substantially all of the assets of the 2009 Entity serve as collateral for the Revolving Note. The Revolving Note bears interest, is subject to customary terms and conditions and may be repaid at any time without penalty prior to its 2026 maturity date.

The advances under the Revolving Note were primarily used by the 2009 Entity to purchase additional private education loans under the 2009 Loan Program that otherwise may not have been originated. We have no immediate plans to significantly increase the amount of advances that we make to the 2009 Entity under the Revolving Note, but we may decide to do so in the foreseeable future.

The 2009 Entity is a variable interest entity as defined under ASC 810. We held variable interests in the 2009 Entity as of March 31, 2012 as a result of the Revolving Note and 2009 RSA. To determine whether we were the primary beneficiary of the 2009 Entity, we:

- assessed the risks that the 2009 Entity was designed to create and pass through to its variable interest holders;
- identified the variable interests in the 2009 Entity;
- identified the other variable interest holders and their involvement in the activities of the 2009 Entity;
- identified the activities that most significantly impact the 2009 Entity's economic performance;
- determined whether we have the power to direct those activities; and