

ITT EDUCATIONAL SERVICES INC

Form 10-Q/A

February 10, 2006

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q/A

(Amendment No. 2)

(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, 2005

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.

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(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 is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes No

46,165,579

Number of shares of Common Stock, \$.01 par value, outstanding at March 31, 2005

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ITT EDUCATIONAL SERVICES, INC.

Carmel, Indiana

Quarterly Report to Securities and Exchange Commission

March 31, 2005

EXPLANATORY NOTE

This Amendment No. 2 on Form 10-Q/A (Form 10-Q/A) to our Quarterly Report on Form 10-Q for the three months ended March 31, 2005, initially filed with the U.S. Securities and Exchange Commission (SEC) on April 26, 2005 and amended on April 27, 2005 (Original Filing), reflects a restatement (Restatement) of our Consolidated Financial Statements as discussed in Note 11 of the Notes to Consolidated Financial Statements. The determination to restate those financial statements was made as a result of our management s identification of errors related to how we reported restricted cash and where we reported the tax benefit from stock option exercises on our Consolidated Statements of Cash Flows. Those errors were identified as a result of additional controls and enhanced procedures that we adopted during the preparation of our Consolidated Financial Statements in connection with the financial reporting close process of our 2005 fiscal year that ended on December 31, 2005. Further information on the effect of the Restatement on our Consolidated Statements of Cash Flows can be found in Note 11 of the Notes to Consolidated Financial Statements.

This Form 10-Q/A only amends and restates Items 1, 2 and 4 of Part I of the Original Filing. References to this Form 10-Q have been revised to refer to this Form 10-Q/A, and references to our Annual Report on Form 10-K as filed with the SEC for the year ended December 31, 2004 have been revised to refer to the Form 10-K/A filed for that year. Although this Form 10-Q/A contains all of the items required to be included in a Quarterly Report on Form 10-Q, no other information in the Original Filing is amended hereby. The foregoing items have not been updated to reflect other events occurring after the Original Filing or to modify or update those disclosures affected by subsequent events. In addition, pursuant to the rules of the SEC, Item 6 of Part II of the Original Filing has been amended to contain the currently dated certifications from our Chief Executive Officer and Chief Financial Officer, as required by Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934, as amended, and Section 906 of the Sarbanes-Oxley Act of 2002. Updated certifications of our Chief Executive Officer and Chief Financial Officer are attached to this Form 10-Q/A as Exhibits 31.1, 31.2, 32.1 and 32.2.

Except for the foregoing amended information, this Form 10-Q/A continues to speak as of the date of the Original Filing, and we have not updated the disclosure contained herein to reflect events that occurred at a later date. Other events occurring after the filing of the Original Filing or other disclosures necessary to reflect subsequent events have been addressed in our reports filed with the SEC subsequent to the filing of the Original Filing, including the Quarterly Reports on Form 10-Q for the periods ended June 30 and September 30, 2005, amendments of which are being filed concurrently with the filing of this Form 10-Q/A.

With this filing, we have amended the Original Filing. As such, our Consolidated Financial Statements as of and for the three months ended March 31, 2005 and 2004 and the related financial information contained in the Original Filing should no longer be relied upon. In addition, the financial information contained in our Quarterly Reports on Form 10-Q for the three months ended June 30 and September 30, 2005, previously filed by us, should no longer be relied upon.

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PART I

FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS.

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	March 31,	December 31,	March 31,
	2005	2004	2004
	(unaudited)		(unaudited)
Assets			
Current assets			
Cash and cash equivalents	\$ 25,575	\$ 9,389	\$ 23,056
Restricted cash		8,194	
Short-term investments	320,563	332,570	222,227
Accounts receivable, net	12,785	10,430	8,519
Deferred and prepaid income tax	8,128	6,587	6,846
Prepays and other current assets	14,898	5,611	6,972
	<u>381,949</u>	<u>372,781</u>	<u>267,620</u>
Total current assets	381,949	372,781	267,620
Property and equipment, net	107,180	98,746	79,660
Direct marketing costs	15,609	14,713	11,979
Investments	5,182	6,363	20,674
Other assets	981	786	961
	<u>510,901</u>	<u>493,389</u>	<u>380,894</u>
Total assets	\$ 510,901	\$ 493,389	\$ 380,894
Liabilities and Shareholders Equity			
Current liabilities			
Accounts payable	\$ 36,748	\$ 33,769	\$ 36,627
Accrued compensation and benefits	10,837	16,122	12,335
Other accrued liabilities	30,573	26,418	25,878
Deferred revenue	150,663	156,792	127,685
	<u>228,821</u>	<u>233,101</u>	<u>202,525</u>
Total current liabilities	228,821	233,101	202,525
Deferred income tax	10,778	12,842	4,709
Minimum pension liability	9,101	9,101	7,012
Other liabilities	7,069	3,271	3,004
	<u>255,769</u>	<u>258,315</u>	<u>217,250</u>
Total liabilities	255,769	258,315	217,250
Shareholders equity			
Preferred stock, \$.01 par value, 5,000,000 shares authorized, none issued or outstanding			
Common stock, \$.01 par value, 150,000,000 shares authorized, 54,068,904 issued and outstanding	540	540	540
Capital surplus	61,872	59,657	57,097
Retained earnings	308,172	293,910	228,397
Accumulated other comprehensive (loss)	(5,532)	(5,532)	(4,263)
Treasury stock, 7,903,325, 8,074,919 and 8,353,475 shares, at cost	(109,920)	(113,501)	(118,127)
	<u>255,132</u>	<u>235,074</u>	<u>163,644</u>
Total shareholders equity	255,132	235,074	163,644

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Total liabilities and shareholders' equity	\$ 510,901	\$ 493,389	\$ 380,894
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The accompanying notes are an integral part of these financial statements.

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ITT EDUCATIONAL SERVICES, INC.
CONSOLIDATED STATEMENTS OF INCOME

(In thousands, except per share data)

(unaudited)

	Three Months Ended March 31,	
	2005	2004
Revenue	\$ 160,153	\$ 141,730
Costs and Expenses		
Cost of educational services	80,121	76,493
Student services and administrative expenses	49,194	41,449
Special legal and other investigation costs	7,712	9,700
	137,027	127,642
Total costs and expenses		
Operating income	23,126	14,088
Interest income, net	1,714	709
	24,840	14,797
Income before income taxes		
Income taxes	9,812	5,771
	\$ 15,028	\$ 9,026
Net income		
Earnings per common share (basic):	\$ 0.33	\$ 0.20
Earnings per common share (diluted):	\$ 0.32	\$ 0.19

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

Table of Contents**ITT EDUCATIONAL SERVICES, INC.****CONSOLIDATED STATEMENTS OF CASH FLOWS****(In thousands)****(Unaudited)**

	Three Months Ended March 31,	
	2005	2004
	(Restated, See Note 11)	
Cash flows from operating activities:		
Net income	\$ 15,028	\$ 9,026
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation and amortization	4,296	4,867
Provision for doubtful accounts	2,871	2,501
Deferred income taxes	(3,604)	(3,922)
Tax benefit from stock option exercises	2,005	4,259
Changes in operating assets and liabilities:		
Restricted cash	8,194	8,496
Short-term investments		(2,074)
Accounts receivable	(5,226)	(1,622)
Prepays and other assets	(9,482)	(3,488)
Direct marketing costs, net	(896)	(1,135)
Accounts payable and accrued liabilities	5,666	2,765
Deferred revenue	(6,129)	(2,679)
Net cash flows from operating activities	12,723	16,994
Cash flows from investing activities:		
Facility expenditures and land purchases	(9,584)	
Capital expenditures, net	(3,146)	(3,024)
Proceeds from sales and maturities of investments	193,747	240,986
Purchase of investments	(180,559)	(279,177)
Net cash flows from investing activities	458	(41,215)
Cash flows from financing activities:		
Purchase of treasury stock		
Exercise of stock options	3,005	4,235
Net cash flows from financing activities	3,005	4,235
Net change in cash and cash equivalents	16,186	(19,986)
Cash and cash equivalents at beginning of period	9,389	43,042
Cash and cash equivalents at end of period	\$ 25,575	\$ 23,056

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

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ITT EDUCATIONAL SERVICES, INC.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY

(In thousands)

	Common Stock		Capital Surplus	Retained Earnings	Comprehensive Income	Accumulated	Treasury Stock		Total
	Shares	Amount				Other Comprehensive Income (Loss)	Shares	Amount	
Balance as of December 31, 2003	54,069	\$ 540	\$ 52,688	\$ 221,400		\$ (4,263)	(8,638)	\$ (124,241)	\$ 146,124
Exercise of stock options			614	(2,753)			563	10,740	8,601
Tax benefit from stock option exercises			6,355						6,355
Comprehensive income:									
Net income for 2004				75,263	\$ 75,263				75,263
Other comprehensive income, net of tax:									
Minimum pension liability adjustment					(1,269)	(1,269)			(1,269)