

ITT EDUCATIONAL SERVICES INC
Form 10-Q
October 22, 2004

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 September 30, 2004

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 is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Yes No

45,937,076

Number of shares of Common Stock, \$.01 par value, outstanding at September 30, 2004

ITT EDUCATIONAL SERVICES, INC.

Carmel, Indiana

Quarterly Report to Securities and Exchange Commission

September 30, 2004

PART I

FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS.

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Consolidated Statements of Income (unaudited) for the three and nine months ended September 30, 2004 and 2003

Consolidated Balance Sheets as of September 30, 2004 and 2003 (unaudited) and December 31, 2003

Consolidated Statements of Cash Flows (unaudited) for the three and nine months ended September 30, 2004 and 2003

Consolidated Statements of Shareholders' Equity for the three months ended March 31, 2004, June 30, 2004 and September 30, 2004 (unaudited) and the year ended December 31, 2003

Notes to Consolidated Financial Statements

ITT EDUCATIONAL SERVICES, INC.
CONSOLIDATED STATEMENTS OF INCOME

(In thousands, except per share data)

(unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2004	2003	2004	2003
Revenues	\$ 157,945	\$ 134,382	\$ 450,606	\$ 378,213
Costs and Expenses				
Cost of educational services	75,033	69,681	229,536	210,463
Student services and administrative expenses	43,771	39,495	130,265	113,417
Special legal and other investigation costs	9,837		25,143	
Total costs and expenses	128,641	109,176	384,944	323,880
Operating income	29,304	25,206	65,662	54,333
Interest income, net	959	551	2,316	1,549
Income before income taxes	30,263	25,757	67,978	55,882
Income taxes	11,803	9,916	26,512	21,514
Net income	\$ 18,460	\$ 15,841	\$ 41,466	\$ 34,368
Earnings per common share (basic):	\$ 0.40	\$ 0.35	\$ 0.91	\$ 0.76
Earnings per common share (diluted):	\$ 0.39	\$ 0.34	\$ 0.89	\$ 0.75

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

ITT EDUCATIONAL SERVICES, INC.

CONSOLIDATED BALANCE SHEETS

(In thousands, except per share data)

	September 30, 2004 (unaudited)	December 31, 2003	September 30, 2003 (unaudited)
Assets			
Current assets			
Cash and cash equivalents	\$ 166,702	\$ 168,273	\$ 159,749
Restricted cash		8,496	
Short-term investments	145,719	63,938	37,912
Accounts receivable, net	14,041	9,398	9,943
Deferred and prepaid income tax	4,842	2,906	2,950
Prepays and other current assets	5,572	3,635	4,409
Total current assets	336,876	256,646	214,963
Property and equipment, net	92,515	81,503	78,910
Direct marketing costs	13,813	10,844	10,470
Investments	3,275	13,467	6,455
Other assets	989	810	811
Total assets	\$ 447,468	\$ 363,270	\$ 311,609
Liabilities and Shareholders' Equity			
Current liabilities			
Accounts payable	\$ 48,148	\$ 36,543	\$ 41,297
Accrued compensation and benefits	17,499	16,986	13,925
Other accrued liabilities	29,866	18,444	16,146
Deferred revenue	136,094	130,364	110,087
Total current liabilities	231,607	202,337	181,455
Deferred income tax	4,814	4,691	2,714
Minimum pension liability	7,012	7,012	8,041
Other liabilities	3,020	3,106	2,582
Total liabilities	246,453	217,146	194,792
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	58,866	52,688	49,838
Retained earnings	260,241	221,400	199,956
Accumulated other comprehensive (loss)	(4,263)	(4,263)	(4,888)
Treasury stock, 8,131,828, 8,638,535 and 8,798,609 shares, at cost	(114,369)	(124,241)	(128,629)
Total shareholders' equity	201,015	146,124	116,817
Total liabilities and shareholders' equity	\$ 447,468	\$ 363,270	\$ 311,609

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

ITT EDUCATIONAL SERVICES, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2004	2003	2004	2003
Cash flows provided by (used for) operating activities:				
Net income	\$ 18,460	\$ 15,841	\$ 41,466	\$ 34,368
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization	3,920	4,787	13,708	15,800
Provision for doubtful accounts	2,803	1,482	7,704	5,024
Deferred taxes	(52)	(1,006)	(1,812)	(4,452)
Increase/decrease in operating assets and liabilities:				
Short-term investments	(6,895)	(7,687)	4,448	5,796
Accounts receivable	(5,524)	(3,103)	(12,347)	(5,994)
Direct marketing costs	(887)	148	(2,969)	139
Accounts payable and accrued liabilities	732	1,094	23,453	32,518
Prepays and other assets	1,308	1,188	(2,116)	1,625
Deferred revenue	13,573	15,060	5,730	7,090
Net cash provided by (used for) operating activities	27,438	27,804	77,265	91,914
Cash flows provided by (used for) investing activities:				
Facility and land purchases	(1,837)	(3,766)	(8,635)	(21,069)
Capital expenditures, net	(6,134)	(5,046)	(16,085)	(11,057)
Proceeds from maturities of held-to-maturity investments	87,420		146,622	
Purchase of held-to-maturity investments	(127,888)	(24,492)	(222,659)	(24,492)
Net cash provided by (used for) investing activities	(48,439)	(33,304)	(100,757)	(56,618)
Cash flows provided by (used for) financing activities:				
Purchase of treasury stock				(28,726)
Exercise of stock options	4,376	9,037	13,425	22,142
Net cash provided by (used for) financing activities	4,376	9,037	13,425	(6,584)
Net increase (decrease) in cash, cash equivalents and restricted cash				
	(16,625)	3,537	(10,067)	28,712
Cash, cash equivalents and restricted cash at beginning of period				
	183,327	156,212	176,769	131,037
Cash, cash equivalents and restricted cash at end of period				
	\$ 166,702	\$ 159,749	\$ 166,702	